



Ba-Phalaborwa Local Municipality
Annual Financial Statements
for the year ended 30 June 2015

Ba-Phalaborwa Local Municipality

Annual Financial Statements for the year ended 30 June 2015

General Information

Nature of business and principal activities

Local government institution in the Mopani District, Limpopo

Mayoral committee

Mayor

Mayor: Cllr. N.A. Sono
Speaker: Cllr. M.D. Maake
Chief Whip: Cllr. S.L. Mohlala
Member of Exco: Cllr. I. F. Mpenyane
Member of Exco: Cllr. A. Peta
Member of Exco: Cllr. S. De Beer
Member of Exco: Cllr. T. Nkuna
Member Exco: Cllr. Malatji KS
Member of Exco: Cllr. MM. Malatji

Councillors

Cllr. V. P. Mapanzela
Cllr. M.S. Magomane
Cllr. Malesa MM
Cllr. D.M. Rapatsa
Cllr. P. Mhlari
Cllr. S.T. Mkanzi
Cllr. M. V. Mathebula
Cllr. T. M. Malobane
MPAC Chairperson: Cllr. O. Makwala
Cllr. S.R. Nkuna
Cllr. P.S. Mthombeni
Cllr. J.G. Mashele
Cllr. M.R. Monareng
Cllr. M.P. Kgoete
Cllr. G. Fleming
Cllr. H.S. Booyesen
Cllr. T.G. Malatji
Cllr. N.E. Ntimane - Ndlovu
Cllr. M. R. Popela
Cllr. P.G. Mabilo
Cllr. T. Makansi
Cllr. K.E. Mahomane
Cllr. M.G. Malesa
Cllr. B.R. Mashale
Cllr. K.A. Otto
Cllr. R. Makasela
Cllr. M.S. Chauke
Cllr. M.S. Mokgalaka
Cllr. K.P. Mhlarhi
Cllr. B. Ramothwala
Hosi. M. Ntsanwisi
Kgoshi M.A. Malatji
Kgoshi T. Malatji
Makgoshi MC Shai

Grading of local authority

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Ba-Phalaborwa Local Municipality

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General Information

Accounting Officer	Dr S S Sebashe
Chief Finance Officer (CFO)	Mr A F Mushwana
Acting Chief Financial Officer	Mr A T Ndzimande
Registered office	Civic Centre, Nelson Mandela Drive Phalaborwa 1390
Business address	Civic Centre Nelson Mandela Drive Phalaborwa 1390
Postal address	Ba Phalaborwa Municipality Private Bag 01020 Phalaborwa 1390
Bankers	Standard Bank of South Africa
Auditors	Auditor-General - South Africa
Attorneys	Chidi Attorneys Masengane Ke Attorneys Isaiah Nyathi Attorneys Thomas & Swanepoel Inc Mathonsi Attorneys Sikhitha Daniels & Associates Ngcingwana Inc Bernhard Van Der Hoven Gerhard Wagenaar
Incoming members of the audit committee	Chairperson: K P Ravhudzulo appointed on the (01 July 2015) Member: K G Mbonambi appointed on the (01 July 2015) Member: H G Hlomane reappointed on the (01 July 2015) Member: L Thubakgale appointed on the (01 July 2015) Member: P A C Mangoma appointed on the (01 July 2015)
Outgoing audit committee members	Chairperson: T C Modipane resigned in the third quarter 2015 Member: F J Mudau resigned in the third quarter 2015 Member: S A B Ngobeni resigned in the third quarter 2015 Member: Adv S S T Khulong resigned in the third quarter 2015

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The reports and statements set out below comprise the annual financial statements presented to the provincial legislature:

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Abbreviations

COID	Compensation for Occupational Injuries and Diseases
DBSA	Development Bank of South Africa
GRAP	Generally Recognised Accounting Practice
IMFO	Institute of Municipal Finance Officers
MEC	Member of the Executive Council
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant (Previously CMIP)

Preparer

Ba-Phalaborwa Local Municipality

Annual Financial Statements for the year ended 30 June 2015

Accounting Officer's Responsibilities and Approval

The accounting officer is required by the Municipal Finance Management Act (Act 56 of 2003), to maintain adequate accounting records and is responsible for the content and integrity of the annual financial statements and related financial information included in this report. It is the responsibility of the accounting officer to ensure that the annual financial statements fairly present the state of affairs of the municipality as at the end of the financial year and the results of its operations and cash flows for the period then ended. The external auditors are engaged to express an independent opinion on the annual financial statements and were given unrestricted access to all financial records and related data.

The annual financial statements have been prepared in accordance with Standards of Generally Recognised Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board.

The annual financial statements are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates.

The accounting officer acknowledges that he is ultimately responsible for the system of internal financial control established by the municipality and place considerable importance on maintaining a strong control environment. To enable the accounting officer to meet these responsibilities, the accounting officer sets standards for internal control aimed at reducing the risk of error or deficit in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the municipality and all employees are required to maintain the highest ethical standards in ensuring the municipality's business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the municipality is on identifying, assessing, managing and monitoring all known forms of risk across the municipality. While operating risk cannot be fully eliminated, the municipality endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

The accounting officer is of the opinion, based on the information and explanations given by management, that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the annual financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or deficit.

The accounting officer has reviewed the municipality's cash flow forecast for the year to 30 June 2016 and, in the light of this review and the current financial position, he is satisfied that the municipality has or has access to adequate resources to continue in operational existence for the foreseeable future.

Although the accounting officer is primarily responsible for the financial affairs of the municipality, they are supported by the municipality's external auditors.

The external auditors are responsible for independently reviewing and reporting on the municipality's annual financial statements. The annual financial statements have been examined by the municipality's external auditors and their report is presented on page 5.

The annual financial statements set out on pages 5 to 65, which have been prepared on the going concern basis, were approved by the accounting officer on 31 August 2015 and were signed on its behalf by:

Dr SS Sebashe
Accounting Officer

Ba Phalaborwa Local Municipality
31 August 2015

Ba-Phalaborwa Local Municipality

Annual Financial Statements for the year ended 30 June 2015

Accounting Officer's Report

The accounting officer submits his report for the year ended 30 June 2015.

1. Review of activities

Main business and operations

The municipality is engaged in local government institution in the Mopani district, Limpopo and operates principally in South Africa.

The operating results and state of affairs of the municipality are fully set out in the attached annual financial statements and do not in our opinion require any further comment.

Net deficit of the municipality was R 104 931 962 (2014: deficit R 175 313 531).

2. Going concern

The annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

3. Subsequent events

The accounting officer is not aware of any matter or circumstance arising since the end of the financial year.

4. Accounting policies

The annual financial statements are prepared in accordance with Generally Recognised Accounting Practices (GRAP) issued by the Accounting Standards Board as the prescribed framework by National Treasury.

5. Accounting Officer

The accounting officer of the municipality during the year and to the date of this report is as follows:

Name	Nationality
Dr SS Sebashe	South African

6. Chief Financial Officer

The municipality's chief financial officer was suspended in March 2015. The municipality appointed the budget manager, Mr A T Ndzimande as the acting chief financial officer.

7. Executive directors' emoluments

Economic entity

	Salary or Fee	Other	Total package 2015	Total package 2014
Section 57 Managers				
Municipal Manager	805 188	641 201	1 446 389	1 369 365
Chief Finance Officer	795 303	361 066	1 156 369	1 111 357
Director : Corporate Services	610 211	492 677	1 102 888	989 615
Director : Community Services	525 890	251 005	776 895	1 017 859
Director : Planning and Development	183 493	278 434	461 927	920 005
	2 920 085	2 024 383	4 944 468	6 311 508

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Accounting Officer's Report

8. Corporate governance

General

The accounting officer is committed to business integrity, transparency and professionalism in all its activities. As part of this commitment, the accounting officer supports the highest standards of corporate governance and the ongoing development of best practice.

Audit and risk committee

During the financial year under review the municipality utilised the audit committee of Mopani District Municipality as provided for in section 166 of the Municipal Finance Management Act.

The municipality subsequently appointed its own independent Audit Committee with effect from July 2015, in line with the provisions of section 166 of the Municipal Finance Management Act.

Internal audit

The municipality has its own internal audit unit, headed by Miss Makhongela, the Deputy Director :Internal Audit services

9. Bankers

The municipality's bankers are Standard Bank of South Africa Limited.

10. Auditors

Auditor-General - South Africa will continue in office for the next financial period.

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Annual Financial Statements for the year ended 30 June 2015

Statement of Financial Position as at 30 June 2015

Figures in Rand	Note(s)	2015	2014 Restated
Assets			
Current Assets			
Inventories	8	82 610 560	81 565 594
Operating lease prepayment	12	355 736	-
Consumer debtors	9	99 984 961	95 722 622
Cash and cash equivalents	10	3 245 830	185 019
		186 197 087	177 473 235
Non-Current Assets			
Biological assets	3	387 972	343 743
Investment property	4	42 999 368	42 999 368
Property, plant and equipment	5	878 196 092	851 108 424
Intangible assets	6	1 715 046	2 057 271
		923 298 478	896 508 806
Total Assets		1 109 495 565	1 073 982 041
Liabilities			
Current Liabilities			
Finance lease obligation	11	201 909	266 858
Operating lease liability	12	483 788	155 573
Payables from exchange transactions	15	352 898 480	261 787 580
VAT payable	16	10 722 895	2 444 704
Consumer deposits	17	3 738 397	3 622 185
Unspent conditional grants and receipts	13	-	7 141 197
Bank overdraft	10	-	17 962 506
		368 045 469	293 380 603
Non-Current Liabilities			
Finance lease obligation	11	141 858	340 177
Employee benefit obligation	7	38 333 000	26 841 000
Provisions	14	21 181 506	21 158 271
		59 656 364	48 339 448
Total Liabilities		427 701 833	341 720 051
Net Assets		681 793 732	732 261 990
Reserves			
Revaluation reserve	5	54 463 703	-
Accumulated surplus		627 330 029	732 261 990
Total Net Assets		681 793 732	732 261 990

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Annual Financial Statements for the year ended 30 June 2015

Statement of Financial Performance

Figures in Rand	Note(s)	2015	2014 Restated
Revenue			
Revenue from exchange transactions			
Service charges	21	99 013 201	96 581 668
Rental of facilities and equipment	32	265 470	228 157
Income from agency services		5 324 933	9 458 878
Licences and permits		2 257 105	3 121 311
Other income	23	2 561 907	2 297 317
Interest revenue	24	30 175 946	31 448 892
Total revenue from exchange transactions		139 598 562	143 136 223
Revenue from non-exchange transactions			
Taxation revenue			
Property rates	20	65 593 648	57 238 528
Transfer revenue			
Grants & subsidies	25	126 400 672	105 162 944
Indigent support FBS		178 081	283 140
Fines		8 822 814	15 242 850
Donations		88 715	-
Other transfer revenue	22	4 499 921	-
Total revenue from non-exchange transactions		205 583 851	177 927 462
Total revenue	19	345 182 413	321 063 685
Expenditure			
Personnel	27	(123 097 501)	(93 603 354)
Remuneration of councillors	28	(11 789 625)	(10 645 920)
Audit committee fees		(224 402)	(122 643)
Depreciation and amortisation	5	(60 127 163)	(56 868 499)
Impairment loss	30	(73 146 289)	(171 667 094)
Finance costs	35	(231 338)	(127 595)
Repairs and maintenance		(13 380 536)	(14 561 659)
Bulk purchases	34	(65 625 967)	(67 501 132)
Contracted services	33	(44 544 644)	(46 595 875)
General Expenses	26	(57 991 139)	(34 713 775)
Total expenditure		(450 158 604)	(496 407 546)
Operating deficit	36	(104 976 191)	(175 343 861)
Fair value adjustments	29	44 229	30 330
Deficit for the year		(104 931 962)	(175 313 531)

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Statement of Changes in Net Assets

Figures in Rand	Revaluation reserve	Accumulated surplus	Total net assets
Opening balance as previously reported	-	896 233 036	896 233 036
Adjustments			
Prior year adjustments	-	11 342 485	11 342 485
Balance at 01 July 2013 as restated*	-	907 575 521	907 575 521
Changes in net assets			
Surplus/(Deficit) for the year	-	(175 313 531)	(175 313 531)
Total changes	-	(175 313 531)	(175 313 531)
Balance at 01 July 2014	-	732 261 991	732 261 991
Changes in net assets			
Surplus/ (Deficit) for the year	-	(104 931 962)	(104 931 962)
Changes in revaluation surplus arising from changes in value of property, plant and equipment	54 463 703	-	54 463 703
Total changes	54 463 703	(104 931 962)	(50 468 259)
Balance at 30 June 2015	54 463 703	627 330 029	681 793 732
Note		41	

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Cash Flow Statement

Figures in Rand	Note(s)	2015	2014 Restated
Cash flows from operating activities			
Cash from operating activities	37	<u>57 365 207</u>	<u>27 066 058</u>
Cash flows from investing activities			
Purchase of property, plant and equipment	5	(35 759 885)	(38 619 804)
Purchase of other intangible assets	6	<u>(87 399)</u>	<u>(2 061 790)</u>
Net cash flows from investing activities		<u>(35 847 284)</u>	<u>(40 681 594)</u>
Cash flows from financing activities			
Finance lease payments		(263 268)	(6 130 623)
Finance costs		<u>(231 338)</u>	<u>(127 595)</u>
Net cash flows from financing activities		<u>(494 606)</u>	<u>(6 258 218)</u>
Net increase/(decrease) in cash and cash equivalents		21 023 317	(19 873 754)
Cash and cash equivalents at the beginning of the year		<u>(17 777 487)</u>	<u>2 096 267</u>
Cash and cash equivalents at the end of the year	10	<u>3 245 830</u>	<u>(17 777 487)</u>

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Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Figures in Rand						
Statement of Financial Performance						
Revenue						
Revenue from exchange transactions						
Service charges	106 663 766	-	106 663 766	99 013 201	(7 650 565)	
Rental of facilities and equipment	330 250	-	330 250	265 470	(64 780)	
Dividends received	2 500	-	2 500	-	(2 500)	
Income from agency services	2 255 186	-	2 255 186	5 324 933	3 069 747	
Licences and permits	9 020 744	-	9 020 744	2 257 105	(6 763 639)	
Other income	1 351 509	-	1 351 509	2 561 907	1 210 398	
Interest received - investment	74 903 508	-	74 903 508	30 175 946	(44 727 562)	
Total revenue from exchange transactions	194 527 463	-	194 527 463	139 598 562	(54 928 901)	
Revenue from non-exchange transactions						
Taxation revenue						
Property rates	70 633 500	-	70 633 500	65 593 648	(5 039 852)	
Government grants & subsidies	125 769 000	-	125 769 000	126 400 672	631 672	
Transfer revenue						
Indigent support FBS	-	-	-	178 081	178 081	
Fines	2 600 000	-	2 600 000	8 822 814	6 222 814	
Donations	-	-	-	88 715	88 715	
Other transfer revenue	-	-	-	4 499 921	4 499 921	
Total revenue from non-exchange transactions	199 002 500	-	199 002 500	205 583 851	6 581 351	
Total revenue	393 529 963	-	393 529 963	345 182 413	(48 347 550)	
Expenditure						
Personnel	(118 379 208)	863 573	(117 515 635)	(123 097 501)	(5 581 866)	
Remuneration of councillors	(12 855 439)	770 000	(12 085 439)	(11 789 625)	295 814	
Audit committee fees	-	-	-	(224 402)	(224 402)	51
Depreciation and amortisation	(74 909 000)	-	(74 909 000)	(60 127 163)	14 781 837	
Impairment loss/ Reversal of impairments	(31 558 321)	-	(31 558 321)	(73 146 289)	(41 587 968)	51
Finance costs	(847 503)	(1 200 000)	(2 047 503)	(231 338)	1 816 165	
Repairs and maintenance	(19 290 850)	(911 000)	(20 201 850)	(13 380 536)	6 821 314	
Bulk purchases	(82 573 300)	-	(82 573 300)	(65 625 967)	16 947 333	
Contracted Services	(45 536 274)	(3 949 000)	(49 485 274)	(44 544 644)	4 940 630	
General Expenses	(52 868 756)	(3 932 450)	(56 801 206)	(57 991 139)	(1 189 933)	
Total expenditure	(438 818 651)	(8 358 877)	(447 177 528)	(450 158 604)	(2 981 076)	51
Operating deficit	(45 288 688)	(8 358 877)	(53 647 565)	(104 976 191)	(51 328 626)	
Fair value adjustments	-	-	-	44 229	44 229	
Deficit for the year	(45 288 688)	(8 358 877)	(53 647 565)	(104 931 962)	(51 284 397)	
Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement	(45 288 688)	(8 358 877)	(53 647 565)	(104 931 962)	(51 284 397)	

Ba-Phalaborwa Local Municipality

Annual Financial Statements for the year ended 30 June 2015

Accounting Policies

1. Presentation of Annual Financial Statements

The annual financial statements have been prepared in accordance with the Standards of Generally Recognised Accounting Practice (GRAP), issued by the Accounting Standards Board in accordance with Section 122(3) of the Municipal Finance Management Act (Act 56 of 2003).

These annual financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention as the basis of measurement, unless specified otherwise. They are presented in South African Rand.

A summary of the significant accounting policies, which have been consistently applied in the preparation of these annual financial statements, are disclosed below.

These accounting policies are consistent with the previous period.

1.1 Going concern assumption

These annual financial statements have been prepared based on the expectation that the municipality will continue to operate as a going concern for at least the next 12 months.

1.2 Significant judgements and sources of estimation uncertainty

In preparing the annual financial statements, management is required to make estimates and assumptions that affect the amounts represented in the annual financial statements and related disclosures. Use of available information and the application of judgement is inherent in the formation of estimates. Actual results in the future could differ from these estimates which may be material to the annual financial statements. Significant judgements include:

Trade receivables / Held to maturity investments and/or loans and receivables

The municipality assesses its trade receivables, held to maturity investments and loans and receivables for impairment at the end of each reporting period. In determining whether an impairment loss should be recorded in surplus or deficit, the surplus makes judgements as to whether there is observable data indicating a measurable decrease in the estimated future cash flows from a financial asset.

Allowance for slow moving, damaged and obsolete stock

An allowance for stock to write stock down to the lower of cost or net realisable value. Management have made estimates of the selling price and direct cost to sell on certain inventory items. The write down is included in the operation surplus note.

Fair value estimation

The carrying value less impairment provision of trade receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the municipality for similar financial instruments.

Impairment testing

The recoverable amounts of cash-generating units and individual assets have been determined based on the higher of value-in-use calculations and fair values less costs to sell. These calculations require the use of estimates and assumptions. It is reasonably possible that the assumptions made may change which may then impact our estimations and may then require a material adjustment to the carrying value of assets.

The municipality reviews and tests the carrying value of assets when events or changes in circumstances suggest that the carrying amount may not be recoverable. Assets are grouped at the lowest level for which identifiable cash flows are largely independent of cash flows of other assets and liabilities. If there are indications that impairment may have occurred, estimates are prepared of expected future cash flows for each group of assets. Expected future cash flows used to determine the value in use of assets are inherently uncertain and could materially change over time.

Provisions

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions are included in note 14 - Provisions.

Ba-Phalaborwa Local Municipality

Annual Financial Statements for the year ended 30 June 2015

Accounting Policies

1.2 Significant judgements and sources of estimation uncertainty (continued)

Useful lives of waste and water network and other assets

The municipality's management determines the estimated useful lives and related depreciation charges for the waste water and water networks. This estimate is based on industry norm. Management will increase the depreciation charge where useful lives are less than previously estimated useful lives.

Post retirement benefits

The present value of the post retirement obligation depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost (income) include the discount rate. Any changes in these assumptions will impact on the carrying amount of post retirement obligations.

The municipality determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the pension obligations. In determining the appropriate discount rate, the municipality considers the interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension liability.

Other key assumptions for pension obligations are based on current market conditions. Additional information is disclosed in Note 7.

Allowance for doubtful debts

On debtors an impairment loss is recognised in surplus and deficit when there is objective evidence that it is impaired. The impairment is measured as the difference between the debtors carrying amount and the present value of estimated future cash flows discounted at the effective interest rate, computed at initial recognition.

Revenue

Management have made estimates of revenue for the supply of services which have not yet been billed for at the end of the reporting period. The estimated revenue is included in the statement of financial performance.

Property, plant and equipment

The municipality reviews the estimated residual value and useful lives of property, plant and equipment when changing circumstances indicate that they may have changed since the most recent reporting date. During the current year, the municipality determined that the estimated residual value of certain items of property plant and equipment should be revised.

1.3 Biological assets

The entity recognises a biological assets or agricultural produce when, and only when:

- the entity controls the asset as a result of past events;
- it is probable that future economic benefits or service potential associated with the asset will flow to the municipality; and
- the fair value or cost of the asset can be measured reliably.

Biological assets are measured at their fair value less costs to sell.

A gain or loss arising on initial recognition of biological assets or agricultural produce at fair value less costs to sell and from a change in fair value less costs to sell of a biological assets is included in surplus or deficit for the period in which it arises.

Where fair value cannot be measured reliably, biological assets are measured at cost less any accumulated depreciation and any accumulated impairment losses.

1.4 Investment property

Investment property is property (land and building) held to earn rentals or for capital appreciation or both, rather than for:

- use in the production or supply of goods or services or for
- administrative purposes, or

Accounting Policies

1.4 Investment property (continued)

- sale in the ordinary course of operations.

Investment property is recognised as an asset when, it is probable that the future economic benefits or service potential that are associated with the investment property will flow to the municipality, and the cost or fair value of the investment property can be measured reliably.

Investment property is initially recognised at cost. Transaction costs are included in the initial measurement.

Where investment property is acquired through a non-exchange transaction, its cost is its fair value as at the date of acquisition.

Fair value

Subsequent to initial measurement investment property is measured at fair value.

The fair value of investment property reflects market conditions at the reporting date.

A gain or loss arising from a change in fair value is included in net surplus or deficit for the period in which it arises.

1.5 Property, plant and equipment

Property, plant and equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of goods or services, rental to others, or for administrative purposes, and are expected to be used during more than one reporting period.

The cost of an item of property, plant and equipment is recognised as an asset when:

- it is probable that future economic benefits or service potential associated with the item will flow to the municipality; and
- the cost or fair value of the item can be measured reliably.

Property, plant and equipment is initially measured at cost.

The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Trade discounts and rebates are deducted in arriving at the cost.

Where an asset is acquired through a non-exchange transaction, its cost is its fair value as at date of acquisition.

Where an item of property, plant and equipment is acquired in exchange for a non-monetary asset or assets, or a combination of assets and non-monetary assets, the asset acquired is initially measured at fair value (the cost). If the acquired item's fair value was not determinable, it's deemed cost is the carrying amount of the asset(s) given up.

The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located is also included in the cost of property, plant and equipment, where the entity is obligated to incur such expenditure, and where the obligation arises as a result of acquiring the asset or using it for purposes other than the production of inventories.

Recognition of costs in the carrying amount of an item of property, plant and equipment ceases when the item is in the location and condition necessary for it to be capable of operating in the manner intended by management.

Major spare parts and stand by equipment which are expected to be used for more than one period are included in property, plant and equipment. In addition, spare parts and stand by equipment which can only be used in connection with an item of property, plant and equipment are accounted for as property, plant and equipment.

Major inspection costs which are a condition of continuing use of an item of property, plant and equipment and which meet the recognition criteria above are included as a replacement in the cost of the item of property, plant and equipment. Any remaining inspection costs from the previous inspection are derecognised.

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses except for land which is carried at revalued amount being the fair value at the date of revaluation. Land is not depreciated.

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Accounting Policies

1.5 Property, plant and equipment (continued)

Any increase in an asset's carrying amount, as a result of a revaluation, is credited directly to a revaluation surplus. The increase is recognised in surplus or deficit to the extent that it reverses a revaluation decrease of the same asset previously recognised in surplus or deficit.

Property, plant and equipment are depreciated on the straight line basis over their expected useful lives to their estimated residual value.

The useful lives of items of property, plant and equipment have been assessed as follows:

Item	Average useful life
Buildings	30 years
Infrastructure	
• Electricity Assets	3 - 60 years
• Roads	5 - 100 years
• Roads furniture	2 - 50 years
• Road structures	80 years
Community	
• Cemeteries	5 - 100 years
• Halls and centres	7 - 100 years
• Landfill sites	15 - 60 years
• Markets, stalls and LED facilities	15 - 50 years
• Parks	10 - 80 years
• Sport facilities	30 years
• Taxi ranks	15 - 100 years
Other property, plant and equipment	
• Computer hardware	5 years
• Equipment	5 years
• Furniture and fittings	7 years
• Machinery	5 - 7 years
• Office equipment	3 - 10 years
• Picnic seaters and benches	7 years
• Vehicles	3 - 20 years

The residual value, the useful life and depreciation method of each asset are reviewed at least at of each reporting date. If the expectations differ from previous estimates, the change is accounted for as a change in accounting estimate.

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately.

The depreciation charge for each period is recognised in surplus or deficit unless it is included in the carrying amount of another asset.

Items of property, plant and equipment are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use or disposal of the asset.

The gain or loss arising from the derecognition of an item of property, plant and equipment is included in surplus or deficit when the item is derecognised. The gain or loss arising from the derecognition of an item of property, plant and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

1.6 Site restoration and dismantling cost

The municipality has an obligation to dismantle, remove and restore items of property, plant and equipment. Such obligations are referred to as 'decommissioning, restoration and similar liabilities'. The cost of an item of property, plant and equipment includes the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, the obligation for which an municipality incurs either when the item is acquired or as a consequence of having used the item during a particular period for purposes other than to produce inventories during that period.

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Accounting Policies

1.6 Site restoration and dismantling cost (continued)

If the related asset is measured using the cost model:

- (a) subject to (b), changes in the liability are added to, or deducted from, the cost of the related asset in the current period;
- (b) if a decrease in the liability exceeds the carrying amount of the asset, the excess is recognised immediately in surplus or deficit; and
- (c) if the adjustment results in an addition to the cost of an asset, the municipality considers whether this is an indication that the new carrying amount of the asset may not be fully recoverable. If it is such an indication, the asset is tested for impairment by estimating its recoverable amount or recoverable service amount, and any impairment loss is recognised in accordance with the accounting policy on impairment of cash-generating assets and/or impairment of non-cash-generating assets.

1.7 Financial instruments

Initial recognition and measurement

Financial instruments are recognised initially when the municipality becomes a party to the contractual provisions of the instruments.

The municipality classifies financial instruments, or their component parts, on initial recognition as a financial asset, a financial liability or an equity instrument in accordance with the substance of the contractual arrangement.

Financial instruments are measured initially at fair value, except for equity investments for which a fair value is not determinable, which are measured at cost.

For financial instruments which are not at fair value through surplus or deficit, transaction costs are included in the initial measurement of the instrument.

Transaction costs on financial instruments at fair value through surplus or deficit are recognised in surplus or deficit.

Subsequent measurement

Receivables from exchange transactions

Trade receivables are measured at initial recognition at fair value, and are subsequently measured at amortised cost using the effective interest rate method. Appropriate allowances for estimated irrecoverable amounts are recognised in surplus or deficit when there is objective evidence that the asset is impaired. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 30 days overdue) are considered indicators that the trade receivable is impaired. The allowance recognised is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition.

The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the deficit is recognised in surplus or deficit within operating expenses. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against operating expenses in surplus or deficit.

Trade and other receivables are classified as loans and receivables.

Payables from exchange transactions

Trade payables are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value. These are initially and subsequently recorded at fair value.

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Accounting Policies

1.7 Financial instruments (continued)

Bank overdraft and borrowings

Bank overdrafts and borrowings are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method. Any difference between the proceeds (net of transaction costs) and the settlement or redemption of borrowings is recognised over the term of the borrowings in accordance with the municipality's accounting policy for borrowing costs.

Gains and losses

A gain or loss arising from a change in a financial asset or financial liability is recognised as follows:

- A gain or loss on a financial asset or financial liability classified as at fair value through surplus or deficit is recognised in surplus or deficit;
- For financial assets and financial liabilities carried at amortised cost, a gain or loss is recognised in surplus or deficit when the financial asset or financial liability is derecognised or impaired, and through the amortisation process.

Impairment of financial assets

The municipality assesses at each statement of financial position date whether a financial asset or group of financial assets is impaired.

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The carrying amount of the asset shall be reduced either directly or through the use of an allowance account. The amount of the loss shall be recognised in surplus or deficit. The municipality first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

1.8 Leases

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

When a lease includes both land and buildings elements, the entity assesses the classification of each element separately.

Finance leases - lessee

Finance leases are recognised as assets and liabilities in the statement of financial position at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

The discount rate used in calculating the present value of the minimum lease payments is the interest rate implicit in the lease.

Minimum lease payments are apportioned between the finance charge and reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of on the remaining balance of the liability.

Any contingent rents are expensed in the period in which they are incurred.

Accounting Policies

1.8 Leases (continued)

Operating leases - lessor

Operating lease revenue is recognised as revenue on a straight-line basis over the lease term.

Initial direct costs incurred in negotiating and arranging operating leases are added to the carrying amount of the leased asset and recognised as an expense over the lease term on the same basis as the lease revenue.

Income for leases is disclosed under revenue in statement of financial performance.

Operating leases - lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. The difference between the amounts recognised as an expense and the contractual payments are recognised as an operating lease asset or liability.

1.9 Inventories

Inventories are initially measured at cost except where inventories are acquired through a non-exchange transaction, then their costs are their fair value as at the date of acquisition.

Subsequently inventories are measured at the lower of cost and net realisable value.

Inventories are measured at the lower of cost and current replacement cost where they are held for;

- distribution at no charge or for a nominal charge; or
- consumption in the production process of goods to be distributed at no charge or for a nominal charge.

Net realisable value is the estimated selling price in the ordinary course of operations less the estimated costs of completion and the estimated costs necessary to make the sale, exchange or distribution.

Current replacement cost is the cost the municipality incurs to acquire the asset on the reporting date.

The cost of inventories comprises of all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

The cost of inventories of items that are not ordinarily interchangeable and goods or services produced and segregated for specific projects is assigned using specific identification of the individual costs.

The cost of inventories is assigned using the first-in, first-out (FIFO) formula. The same cost formula is used for all inventories having a similar nature and use to the municipality.

When inventories are sold or utilised, the carrying amounts of those inventories are recognised as an expense in the period in which the related revenue is recognised. If there is no related revenue, the expenses are recognised when the goods are distributed, or related services are rendered. The amount of any write-down of inventories to net realisable value or current replacement cost and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value or current replacement cost, are recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

1.10 Impairment of cash-generating assets

Cash-generating assets are those assets held by the municipality with the primary objective of generating a commercial return. When an asset is deployed in a manner consistent with that adopted by a profit-orientated entity, it generates a commercial return.

Carrying amount is the amount at which an asset is recognised in the statement of financial position after deducting any accumulated depreciation and accumulated impairment losses thereon.

A cash-generating unit is the smallest identifiable group of assets held with the primary objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

Accounting Policies

1.10 Impairment of cash-generating assets (continued)

Recoverable amount of an asset or a cash-generating unit is the higher its fair value less costs to sell and its value in use.

Identification

When the carrying amount of a cash-generating asset exceeds its recoverable amount, it is impaired.

The municipality assesses at each reporting date whether there is any indication that a cash-generating asset may be impaired. If any such indication exists, the municipality estimates the recoverable amount of the asset.

Recognition and measurement (individual asset)

If the recoverable amount of a cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. This reduction is an impairment loss.

An impairment loss is recognised immediately in surplus or deficit.

When the amount estimated for an impairment loss is greater than the carrying amount of the cash-generating asset to which it relates, the municipality recognises a liability only to the extent that is a requirement in the Standard of GRAP.

After the recognition of an impairment loss, the depreciation (amortisation) charge for the cash-generating asset is adjusted in future periods to allocate the cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

Cash-generating units

If there is any indication that an asset may be impaired, the recoverable amount is estimated for the individual asset. If it is not possible to estimate the recoverable amount of the individual asset, the municipality determines the recoverable amount of the cash-generating unit to which the asset belongs (the asset's cash-generating unit).

If an active market exists for the output produced by an asset or group of assets, that asset or group of assets is identified as a cash-generating unit, even if some or all of the output is used internally. If the cash inflows generated by any asset or cash-generating unit are affected by internal transfer pricing, the municipality use management's best estimate of future price(s) that could be achieved in arm's length transactions in estimating:

- the future cash inflows used to determine the asset's or cash-generating unit's value in use; and
- the future cash outflows used to determine the value in use of any other assets or cash-generating units that are affected by the internal transfer pricing.

Cash-generating units are identified consistently from period to period for the same asset or types of assets, unless a change is justified.

The carrying amount of a cash-generating unit is determined on a basis consistent with the way the recoverable amount of the cash-generating unit is determined.

An impairment loss is recognised for a cash-generating unit if the recoverable amount of the unit is less than the carrying amount of the unit. The impairment is allocated to reduce the carrying amount of the cash-generating assets of the unit on a pro rata basis, based on the carrying amount of each asset in the unit. These reductions in carrying amounts are treated as impairment losses on individual assets.

In allocating an impairment loss, the entity does not reduce the carrying amount of an asset below the highest of:

- its fair value less costs to sell (if determinable);
- its value in use (if determinable); and
- zero.

The amount of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other cash-generating assets of the unit.

Where a non-cash-generating asset contributes to a cash-generating unit, a proportion of the carrying amount of that non-cash-generating asset is allocated to the carrying amount of the cash-generating unit prior to estimation of the recoverable amount of the cash-generating unit.

Accounting Policies

1.11 Impairment of non-cash-generating assets

Non-cash-generating assets are assets other than cash-generating assets.

Recognition and measurement

If the recoverable service amount of a non-cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable service amount. This reduction is an impairment loss.

An impairment loss is recognised immediately in surplus or deficit.

When the amount estimated for an impairment loss is greater than the carrying amount of the non-cash-generating asset to which it relates, the municipality recognises a liability only to the extent that is a requirement in the Standards of GRAP.

After the recognition of an impairment loss, the depreciation (amortisation) charge for the non-cash-generating asset is adjusted in future periods to allocate the non-cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

1.12 Employee benefits

Employee benefits are all forms of consideration given by an entity in exchange for service rendered by employees.

Termination benefits are employee benefits payable as a result of either:

- an entity's decision to terminate an employee's employment before the normal retirement date; or
- an employee's decision to accept voluntary redundancy in exchange for those benefits.

Other long-term employee benefits are employee benefits (other than post-employment benefits and termination benefits) that are not due to be settled within twelve months after the end of the period in which the employees render the related service.

Vested employee benefits are employee benefits that are not conditional on future employment.

A constructive obligation is an obligation that derives from an entity's actions where by an established pattern of past practice, published policies or a sufficiently specific current statement, the entity has indicated to other parties that it will accept certain responsibilities and as a result, the entity has created a valid expectation on the part of those other parties that it will discharge those responsibilities.

Accounting Policies

1.12 Employee benefits (continued)

Short-term employee benefits

Short-term employee benefits are employee benefits (other than termination benefits) that are due to be settled within twelve months after the end of the period in which the employees render the related service.

Short-term employee benefits include items such as:

- wages, salaries and social security contributions;
- short-term compensated absences (such as paid annual leave and paid sick leave) where the compensation for the absences is due to be settled within twelve months after the end of the reporting period in which the employees render the related employee service;
- bonus, incentive and performance related payments payable within twelve months after the end of the reporting period in which the employees render the related service; and
- non-monetary benefits (for example, medical care, and free or subsidised goods or services such as housing, cars and cellphones) for current employees.

When an employee has rendered service to the entity during a reporting period, the entity recognise the undiscounted amount of short-term employee benefits expected to be paid in exchange for that service:

- as a liability (accrued expense), after deducting any amount already paid. If the amount already paid exceeds the undiscounted amount of the benefits, the entity recognise that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund; and
- as an expense, unless another Standard requires or permits the inclusion of the benefits in the cost of an asset.

The expected cost of compensated absences is recognised as an expense as the employees render services that increase their entitlement or, in the case of non-accumulating absences, when the absence occurs. The entity measure the expected cost of accumulating compensated absences as the additional amount that the entity expects to pay as a result of the unused entitlement that has accumulated at the reporting date.

The entity recognise the expected cost of bonus, incentive and performance related payments when the entity has a present legal or constructive obligation to make such payments as a result of past events and a reliable estimate of the obligation can be made. A present obligation exists when the entity has no realistic alternative but to make the payments.

Post-employment benefits

Post-employment benefits are employee benefits (other than termination benefits) which are payable after the completion of employment.

Insured benefits

Where the entity pay insurance premiums to fund a post-employment benefit plan, the entity treats such a plan as a defined contribution plan unless the entity will have (either directly or indirectly through the plan) a legal or constructive obligation to either:

- pay the employee benefits directly when they fall due; or
- pay further amounts if the insurer does not pay all future employee benefits relating to employee service in the current and prior reporting periods.

If the entity retains such a legal or constructive obligation, the entity treats the plan as a defined benefit plan.

Accounting Policies

1.12 Employee benefits (continued)

Post-employment benefits: Defined contribution plans

Defined contribution plans are post-employment benefit plans under which an entity pays fixed contributions into a separate entity (a fund) and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods.

When an employee has rendered service to the entity during a reporting period, the entity recognise the contribution payable to a defined contribution plan in exchange for that service:

- as a liability (accrued expense), after deducting any contribution already paid. If the contribution already paid exceeds the contribution due for service before the reporting date, an entity recognise that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund; and
- as an expense, unless another Standard requires or permits the inclusion of the contribution in the cost of an asset.

Where contributions to a defined contribution plan do not fall due wholly within twelve months after the end of the reporting period in which the employees render the related service, they are discounted. The rate used to discount reflects the time value of money. The currency and term of the financial instrument selected to reflect the time value of money is consistent with the currency and estimated term of the obligation.

Accounting Policies

1.12 Employee benefits (continued)

Post-employment benefits: Defined benefit plans

Defined benefit plans are post-employment benefit plans other than defined contribution plans.

Actuarial gains and losses comprise experience adjustments (the effects of differences between the previous actuarial assumptions and what has actually occurred) and the effects of changes in actuarial assumptions. In measuring its defined benefit liability the entity recognise actuarial gains and losses in surplus or deficit in the reporting period in which they occur.

Current service cost is the increase in the present value of the defined benefit obligation resulting from employee service in the current period.

Interest cost is the increase during a period in the present value of a defined benefit obligation which arises because the benefits are one period closer to settlement.

Past service cost is the change in the present value of the defined benefit obligation for employee service in prior periods, resulting in the current period from the introduction of, or changes to, post-employment benefits or other long-term employee benefits. Past service cost may be either positive (when benefits are introduced or changed so that the present value of the defined benefit obligation increases) or negative (when existing benefits are changed so that the present value of the defined benefit obligation decreases). In measuring its defined benefit liability the entity recognise past service cost as an expense in the reporting period in which the plan is amended.

The present value of a defined benefit obligation is the present value, without deducting any plan assets, of expected future payments required to settle the obligation resulting from employee service in the current and prior periods.

The entity account not only for its legal obligation under the formal terms of a defined benefit plan, but also for any constructive obligation that arises from the entity's informal practices. Informal practices give rise to a constructive obligation where the entity has no realistic alternative but to pay employee benefits. An example of a constructive obligation is where a change in the entity's informal practices would cause unacceptable damage to its relationship with employees.

The amount recognised as a defined benefit liability is the net total of the following amounts:

- the present value of the defined benefit obligation at the reporting date;
- minus the fair value at the reporting date of plan assets (if any) out of which the obligations are to be settled directly;
- plus any liability that may arise as a result of a minimum funding requirement

Any adjustments arising from the limit above is recognised in surplus or deficit.

The entity determine the present value of defined benefit obligations and the fair value of any plan assets with sufficient regularity such that the amounts recognised in the annual financial statements do not differ materially from the amounts that would be determined at the reporting date.

The entity recognises the net total of the following amounts in surplus or deficit, except to the extent that another Standard requires or permits their inclusion in the cost of an asset:

- current service cost;
- interest cost;
- the expected return on any plan assets and on any reimbursement rights;
- actuarial gains and losses;
- past service cost;
- the effect of any curtailments or settlements; and
- the effect of applying the limit on a defined benefit asset (negative defined benefit liability).

The entity uses the Projected Unit Credit Method to determine the present value of its defined benefit obligations and the related current service cost and, where applicable, past service cost. The Projected Unit Credit Method (sometimes known as the accrued benefit method pro-rated on service or as the benefit/years of service method) sees each period of service as giving rise to an additional unit of benefit entitlement and measures each unit separately to build up the final obligation.

Accounting Policies

1.12 Employee benefits (continued)

In determining the present value of its defined benefit obligations and the related current service cost and, where applicable, past service cost, an entity shall attribute benefit to periods of service under the plan's benefit formula. However, if an employee's service in later years will lead to a materially higher level of benefit than in earlier years, an entity shall attribute benefit on a straight-line basis from:

- the date when service by the employee first leads to benefits under the plan (whether or not the benefits are conditional on further service); until
- the date when further service by the employee will lead to no material amount of further benefits under the plan, other than from further salary increases.

Actuarial valuations are conducted on an annual basis by independent actuaries separately for each plan. The results of the valuation are updated for any material transactions and other material changes in circumstances (including changes in market prices and interest rates) up to the reporting date.

1.13 Provisions and contingencies

Provisions are recognised when:

- the municipality has a present obligation as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; and
- a reliable estimate can be made of the obligation.

The amount of a provision is the best estimate of the expenditure expected to be required to settle the present obligation at the reporting date.

Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement is recognised when, and only when, it is virtually certain that reimbursement will be received if the municipality settles the obligation. The reimbursement is treated as a separate asset. The amount recognised for the reimbursement does not exceed the amount of the provision.

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. Provisions are reversed if it is no longer probable that an outflow of resources embodying economic benefits or service potential will be required, to settle the obligation.

Where discounting is used, the carrying amount of a provision increases in each period to reflect the passage of time. This increase is recognised as an interest expense.

A provision is used only for expenditures for which the provision was originally recognised.

Provisions are not recognised for future operating deficits.

If an entity has a contract that is onerous, the present obligation (net of recoveries) under the contract is recognised and measured as a provision.

A constructive obligation to restructure arises only when an entity:

- has a detailed formal plan for the restructuring, identifying at least:
 - the activity/operating unit or part of a activity/operating unit concerned;
 - the principal locations affected;
 - the location, function, and approximate number of employees who will be compensated for services being terminated;
 - the expenditures that will be undertaken; and
 - when the plan will be implemented; and
- has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement that plan or announcing its main features to those affected by it.

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 39.

Accounting Policies

1.13 Provisions and contingencies (continued)

Decommissioning, restoration and similar liability

Changes in the measurement of an existing decommissioning, restoration and similar liability that result from changes in the estimated timing or amount of the outflow of resources embodying economic benefits or service potential required to settle the obligation, or a change in the discount rate, is accounted for as follows:

If the related asset is measured using the cost model:

- changes in the liability is added to, or deducted from, the cost of the related asset in the current period.
- the amount deducted from the cost of the asset does not exceed its carrying amount. If a decrease in the liability exceeds the carrying amount of the asset, the excess is recognised immediately in surplus or deficit.
- if the adjustment results in an addition to the cost of an asset, the entity consider whether this is an indication that the new carrying amount of the asset may not be fully recoverable. If there is such an indication, the entity test the asset for impairment by estimating its recoverable amount or recoverable service amount, and account for any impairment loss, in accordance with the accounting policy on impairment of assets as described in accounting policy 1.10 and 1.11.
- changes in the liability alter the revaluation surplus or deficit previously recognised on that asset, so that:
 - a decrease in the liability is credited directly to revaluation surplus in net assets, except that it is recognised in surplus or deficit to the extent that it reverses a revaluation deficit on the asset that was previously recognised in surplus or deficit; and
 - an increase in the liability is recognised in surplus or deficit, except that it is debited directly to revaluation surplus in net assets to the extent of any credit balance existing in the revaluation surplus in respect of that asset;

The adjusted depreciable amount of the asset is depreciated over its useful life. Therefore, once the related asset has reached the end of its useful life, all subsequent changes in the liability is recognised in surplus or deficit as they occur. This applies under both the cost model and the revaluation model.

The periodic unwinding of the discount is recognised in surplus or deficit as a finance cost as it occurs.

1.14 Revenue from exchange transactions

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets, other than increases relating to contributions from owners.

An exchange transaction is one in which the municipality receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of goods, services or use of assets) to the other party in exchange.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Measurement

Revenue is measured at the fair value of the consideration received or receivable, net of trade discounts and volume rebates.

Sale of goods

Revenue from the sale of goods is recognised when all the following conditions have been satisfied:

- the municipality has transferred to the purchaser the significant risks and rewards of ownership of the goods;
- the municipality retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Accounting Policies

1.14 Revenue from exchange transactions (continued)

Rendering of services

When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction is recognised by reference to the stage of completion of the transaction at the reporting date. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied:

- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the stage of completion of the transaction at the reporting date can be measured reliably; and
- the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

When services are performed by an indeterminate number of acts over a specified time frame, revenue is recognised on a straight line basis over the specified time frame unless there is evidence that some other method better represents the stage of completion. When a specific act is much more significant than any other acts, the recognition of revenue is postponed until the significant act is executed.

When the outcome of the transaction involving the rendering of services cannot be estimated reliably, revenue is recognised only to the extent of the expenses recognised that are recoverable.

Service revenue is recognised by reference to the stage of completion of the transaction at the reporting date. Stage of completion is determined by services performed to date as a percentage of total services to be performed.

Interest

Revenue arising from the use by others of entity assets yielding interest is recognised when:

- It is probable that the economic benefits or service potential associated with the transaction will flow to the municipality, and
- The amount of the revenue can be measured reliably.

Interest is recognised, in surplus or deficit, using the effective interest rate method.

1.15 Revenue from non-exchange transactions

Fines are economic benefits or service potential received or receivable by entities, as determined by a court or other law enforcement body, as a consequence of the breach of laws or regulations.

Non-exchange transactions are transactions that are not exchange transactions. In a non-exchange transaction, an municipality either receives value from another part without directly giving approximately equal value in exchange, or gives value to another part without directly receiving approximately equal value in exchange.

Stipulations on transferred assets are terms in laws or regulation, or a binding arrangement, imposed upon the use of a transferred asset by entities external to the reporting municipality.

Tax expenditures are preferential provisions of the tax law that provide certain taxpayers with concessions that are not available to others.

The taxable event is the event that the government, legislature or other authority has determined will be subject to taxation.

Taxes are economic benefits or service potential compulsorily paid or payable to entities, in accordance with laws and or regulations, established to provide revenue to government. Taxes do not include fines or other penalties imposed for breaches of the law.

Transfers are inflows of future economic benefits or service potential from non-exchange transactions, other than taxes.

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Accounting Policies

1.15 Revenue from non-exchange transactions (continued)

Recognition

An inflow of resources from a non-exchange transaction recognised as an asset is recognised as revenue, except to the extent that a liability is also recognised in respect of the same inflow.

As the municipality satisfies a present obligation recognised as a liability in respect of an inflow of resources from a non-exchange transaction recognised as an asset, it reduces the carrying amount of the liability recognised and recognises an amount of revenue equal to that reduction.

Measurement

Revenue from a non-exchange transaction is measured at the amount of the increase in net assets recognised by the municipality.

When, as a result of a non-exchange transaction, the municipality recognises an asset, it also recognises revenue equivalent to the amount of the asset measured at its fair value as at the date of acquisition, unless it is also required to recognise a liability. Where a liability is required to be recognised it will be measured as the best estimate of the amount required to settle the obligation at the reporting date, and the amount of the increase in net assets, if any, recognised as revenue. When a liability is subsequently reduced, because the taxable event occurs or a condition is satisfied, the amount of the reduction in the liability is recognised as revenue.

Taxes

The municipality recognises an asset in respect of taxes when the taxable event occurs and the asset recognition criteria are met.

Resources arising from taxes satisfy the definition of an asset when the municipality controls the resources as a result of a past event (the taxable event) and expects to receive future economic benefits or service potential from those resources. Resources arising from taxes satisfy the criteria for recognition as an asset when it is probable that the inflow of resources will occur and their fair value can be reliably measured. The degree of probability attached to the inflow of resources is determined on the basis of evidence available at the time of initial recognition, which includes, but is not limited to, disclosure of the taxable event by the taxpayer.

The municipality analyses the taxation laws to determine what the taxable events are for the various taxes levied.

The taxable event for property tax is the passing of the date on which the tax is levied, or the period for which the tax is levied, if the tax is levied on a periodic basis.

Taxation revenue is determined at a gross amount. It is not reduced for expenses paid through the tax system.

Transfers

Apart from Services in kind, which are not recognised, the municipality recognises an asset in respect of transfers when the transferred resources meet the definition of an asset and satisfy the criteria for recognition as an asset.

The municipality recognises an asset in respect of transfers when the transferred resources meet the definition of an asset and satisfy the criteria for recognition as an asset.

Transferred assets are measured at their fair value as at the date of acquisition.

Fines

Fines are recognised as revenue when the receivable meets the definition of an asset and satisfies the criteria for recognition as an asset.

Assets arising from fines are measured at the best estimate of the inflow of resources to the municipality.

Where the municipality collects fines in the capacity of an agent, the fine will not be revenue of the collecting entity.

Ba-Phalaborwa Local Municipality

Annual Financial Statements for the year ended 30 June 2015

Accounting Policies

1.15 Revenue from non-exchange transactions (continued)

Grants

Grants that do not impose specified future performance conditions are recognised in income when the grant proceeds are receivable.

Grants that impose specified future performance conditions are recognised in income only when the performance conditions are met.

Grants received before the revenue recognition criteria are satisfied are recognised as a liability.

Grants are measured at the fair value of the asset received or receivable.

1.16 Investment income

Investment income is recognised on a time-proportion basis using the effective interest method.

1.17 Borrowing costs

It is inappropriate to capitalise borrowing costs when, and only when, there is clear evidence that it is difficult to link the borrowing requirements of an entity directly to the nature of the expenditure to be funded i.e. capital or current.

Borrowing costs are recognised as an expense in the period in which they are incurred.

1.18 Comparative figures

Where necessary, comparative figures have been reclassified to conform to changes in presentation in the current year.

1.19 Unauthorised expenditure

Unauthorised expenditure means:

- overspending of a vote or a main division within a vote; and
- expenditure not in accordance with the purpose of a vote or, in the case of a main division, not in accordance with the purpose of the main division.

All expenditure relating to unauthorised expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.20 Fruitless and wasteful expenditure

Fruitless expenditure means expenditure which was made in vain and would have been avoided had reasonable care been exercised.

All expenditure relating to fruitless and wasteful expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.21 Irregular expenditure

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No.56 of 2003), the Municipal Systems Act (Act No.32 of 2000), and the Public Office Bearers Act (Act No. 20 of 1998) or is in contravention of the economic entity's supply chain management policy. Irregular expenditure excludes unauthorised expenditure. Irregular expenditure is accounted for as expenditure in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

Ba-Phalaborwa Local Municipality

Annual Financial Statements for the year ended 30 June 2015

Accounting Policies

1.22 Revaluation reserve

The surplus arising from the revaluation of property, plant and equipment is credited to a non-distributable reserve. The revaluation surplus is realised as revalued buildings are depreciated, through a transfer from the revaluation reserve to the accumulated surplus/deficit. On disposal, the net revaluation surplus is transferred to the accumulated surplus/deficit while gains or losses on disposal, based on revalued amounts, are credited or charged to the statement of financial performance.

1.23 Budget information

Municipality are typically subject to budgetary limits in the form of appropriations or budget authorisations (or equivalent), which is given effect through authorising legislation, appropriation or similar.

General purpose financial reporting by municipality shall provide information on whether resources were obtained and used in accordance with the legally adopted budget.

The approved budget is prepared on a accrual basis and presented by functional classification linked to performance outcome objectives.

The annual financial statements and the budget are on the same basis of accounting therefore a comparison with the budgeted amounts for the reporting period have been included in the Statement of comparison of budget and actual amounts.

1.24 Related parties

The municipality operates in an economic sector currently dominated by entities directly or indirectly owned by the South African Government. As a consequence of the constitutional independence of the three spheres of government in South Africa, only entities within the national sphere of government are considered to be related parties.

Management are those persons responsible for planning, directing and controlling the activities of the municipality, including those charged with the governance of the municipality in accordance with legislation, in instances where they are required to perform such functions.

Close members of the family of a person are considered to be those family members who may be expected to influence, or be influenced by, that management in their dealings with the municipality.

Only transactions with related parties not at arm's length or not in the ordinary course of business are disclosed.

Ba-Phalaborwa Local Municipality

Annual Financial Statements for the year ended 30 June 2015

Notes to the Annual Financial Statements

Figures in Rand	2015	2014
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2. New standards and interpretations

2.1 Standards and interpretations effective and adopted in the current year

In the current year, the municipality has adopted the following standards and interpretations that are effective for the current financial year and that are relevant to its operations:

Standard/ Interpretation:	Effective date: Years beginning on or after	Expected impact:
• IGRAP 11: Consolidation – Special purpose entities	01 April 2014	No effect
• IGRAP 12: Jointly controlled entities – Non-monetary contributions by ventures	01 April 2014	No effect
• GRAP 6 (as revised 2010): Consolidated and Separate Financial Statements	01 April 2014	No effect
• GRAP 7 (as revised 2010): Investments in Associates	01 April 2014	No effect

2.2 Standards and interpretations issued, but not yet effective

The municipality has not applied the following standards and interpretations, which have been published and are mandatory for the municipality's accounting periods beginning on or after 01 July 2015 or later periods:

Standard/ Interpretation:	Effective date: Years beginning on or after	Expected impact:
• GRAP 18: Segment Reporting	01 April 2016	Possible effect
• GRAP 105: Transfers of functions between entities under common control	01 July 2015	No effect
• GRAP 106: Transfers of functions between entities not under common control	01 July 2015	No effect
• GRAP 107: Mergers	01 July 2015	No effect
• GRAP 20: Related parties	01 July 2015	Possible effect
• GRAP32: Service Concession Arrangements: Grantor	01 April 2015	Possible effect
• GRAP108: Statutory Receivables	01 April 2015	No effect
• IGRAP17: Service Concession Arrangements where a Grantor Controls a Significant Residual Interest in an Asset	01 April 2015	Possible effect

Ba-Phalaborwa Local Municipality

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Notes to the Annual Financial Statements

Figures in Rand

3. Biological assets

	2015			2014 Restated		
	Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Biological assets	387 972	-	387 972	343 743	-	343 743

Reconciliation of biological assets - 2015

	Opening balance	Gains or losses arising from changes in fair value	Total
Biological assets	343 743	44 229	387 972

Reconciliation of biological assets - 2014

	Opening balance	Gains or losses arising from changes in fair value	Total
Biological assets	313 413	30 330	343 743

Methods and assumptions used in determining fair value

A management valuation of the biological assets was performed.

Ba-Phalaborwa Local Municipality

Annual Financial Statements for the year ended 30 June 2015

Notes to the Annual Financial Statements

Figures in Rand

4. Investment property

	2015			2014 Restated		
	Cost	Accumulated depreciation and accumulated impairment	Carrying value	Cost	Accumulated depreciation and accumulated impairment	Carrying value
Investment property	42 999 368	-	42 999 368	42 999 368	-	42 999 368

Reconciliation of investment property - 2015

	Opening balance	Total
Investment property	42 999 368	42 999 368

Reconciliation of investment property - 2014

	Opening balance	Total
Investment property	42 999 368	42 999 368

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

Details of valuation

The valuation was performed on 30 June 2015. The valuations were performed by an independent valuer, Kholofelo Modiba, Modhope (Pty) Ltd. The company is not connected to the municipality and have relevant experience in location and category of the investment property being valued.

The valuation was based on open market value for existing use.

These assumptions are based on current market conditions.

Ba-Phalaborwa Local Municipality

Annual Financial Statements for the year ended 30 June 2015

Notes to the Annual Financial Statements

Figures in Rand

5. Property, plant and equipment

	2015			2014 Restated		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Land	112 623 457	-	112 623 457	58 159 754	-	58 159 754
Buildings	326 234 043	(179 428 724)	146 805 319	326 234 043	(167 456 626)	158 777 417
Infrastructure	763 025 831	(364 401 952)	398 623 879	732 918 682	(333 519 425)	399 399 257
Community	327 713 837	(159 264 968)	168 448 869	326 463 878	(144 604 063)	181 859 815
Library books	88 715	(19 859)	68 856	-	-	-
Capital work in progress	39 032 364	-	39 032 364	36 774 888	-	36 774 888
Other property, plant and equipment	42 717 150	(30 123 802)	12 593 348	40 909 295	(24 772 002)	16 137 293
Total	1 611 435 397	(733 239 305)	878 196 092	1 521 460 540	(670 352 116)	851 108 424

Reconciliation of property, plant and equipment - 2015

	Opening balance	Additions	Transfers	Revaluations	Other changes, movements	Depreciation	Impairment loss	Total
Land	58 159 754	-	-	54 463 703	-	-	-	112 623 457
Buildings	158 777 417	-	-	-	-	(11 972 098)	-	146 805 319
Infrastructure	399 399 257	1 927 621	28 179 528	-	-	(30 882 527)	-	398 623 879
Community	181 859 815	1 498 691	-	-	(248 732)	(14 660 905)	-	168 448 869
Library books	-	88 715	-	-	-	(19 859)	-	68 856
Capital work in progress	36 774 888	30 437 004	(28 179 528)	-	-	-	-	39 032 364
Other property, plant and equipment	16 137 293	1 807 854	-	-	-	(2 162 149)	(3 189 650)	12 593 348
	851 108 424	35 759 885	-	54 463 703	(248 732)	(59 697 538)	(3 189 650)	878 196 092

Ba-Phalaborwa Local Municipality

Annual Financial Statements for the year ended 30 June 2015

Notes to the Annual Financial Statements

Figures in Rand

5. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2014

	Opening balance	Additions	Transfers	Other changes, movements	Depreciation	Total
Land	58 159 754	-	-	-	-	58 159 754
Buildings	170 749 515	-	-	-	(11 972 098)	158 777 417
Infrastructure	416 524 418	5 689 423	7 138 996	-	(29 953 580)	399 399 257
Community	181 821 900	2 211 899	853 059	7 493 144	(10 520 187)	181 859 815
Capital work in progress	16 356 952	28 409 992	(7 992 056)	-	-	36 774 888
Other property, plant and equipment	18 246 395	2 308 490	-	-	(4 417 592)	16 137 293
	861 858 934	38 619 804	(1)	7 493 144	(56 863 457)	851 108 424

Assets subject to finance lease (Net carrying amount)

Included in other property plant and equipment of the municipality is a vehicle acquired in terms of a finance lease. The carrying amount of the vehicle as at 30 June 2015 is as follows:

Motor vehicle	535 070	597 602
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The municipality acquired the Mayor's vehicle in terms of a leasing agreement with Standard bank of South Africa. In terms of the agreement the municipality pays monthly instalments of R18,538 over a period of 48 months towards the settlement of the liability.

Revaluations

The revaluation on Property, plant and equipment was performed on the 30 June 2015. Revaluations were performed by independent valuer from Luvhengo Consulting Engineer, The directors of Luvhengo Consulting Engineers and Messrs Busiso Nyoni, Pr Tech Eng, Mashudu Mudzuli, Pr Tech Eng are managing members are not connected to the municipality.

Ba-Phalaborwa Local Municipality

Annual Financial Statements for the year ended 30 June 2015

Notes to the Annual Financial Statements

Figures in Rand	2015	2014
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5. Property, plant and equipment (continued)

Properties pledged as security

Portion 2 of Farm Laaste 24 Ext 9 Phalaborwa

The municipality's property, Portion 32 of Farm Laaste 24 Ext 9 Phalaborwa is subject to a Standard bank Continuous Covering Mortgage Bond of R8 million. The security was used to secure the temporary overdraft facility for the municipality of R5 million.

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

6. Intangible assets

	2015			2014 Restated		
	Cost	Accumulated amortisation and accumulated impairment	Carrying value	Cost	Accumulated amortisation and accumulated impairment	Carrying value
Computer software, other	2 149 189	(434 143)	1 715 046	2 061 790	(4 519)	2 057 271

Reconciliation of intangible assets - 2015

	Opening balance	Additions	Amortisation	Total
Computer software, other	2 057 271	87 399	(429 624)	1 715 046

Reconciliation of intangible assets - 2014

	Opening balance	Additions	Amortisation	Total
Computer software, other	-	2 061 790	(4 519)	2 057 271

7. Employee benefit obligations

Defined benefit plan

Post retirement medical aid plan

The municipality has a policy to subsidise the post-employment health care costs of employees that are covered by the municipality sponsored health care arrangements at retirement.

The most recent actuarial valuations of plan assets and the present value of the defined benefit obligation were carried out at 30 June 2015 by Krishen Sukdev, from Independent Actuaries and Consultants (Pty) Ltd, a Fellow of the Actuarial Society of South Africa.

The Projected Unit Credit Method was used to value the post retirement medical aid plan liabilities.

The liability in respect of active members has been proportioned between past service and future service. The liability in respect of current pensioners is fully accounted for.

Ba-Phalaborwa Local Municipality

Annual Financial Statements for the year ended 30 June 2015

Notes to the Annual Financial Statements

Figures in Rand	2015	2014
7. Employee benefit obligations (continued)		
The amounts recognised in the statement of financial position are as follows:		
Carrying value		
Present value of the defined benefit obligation-wholly unfunded	(38 333 000)	(26 841 000)
Changes in the present value of the defined benefit obligation are as follows:		
Opening balance	26 841 000	28 117 000
Benefits paid	(787 000)	(748 000)
Net expense recognised in the statement of financial performance	12 279 000	(528 000)
	38 333 000	26 841 000
Net expense recognised in the statement of financial performance		
Current service cost	1 964 000	1 443 000
Interest cost	2 566 000	2 525 000
Actuarial (gains) losses	7 749 000	(4 496 000)
	12 279 000	(528 000)

Ba-Phalaborwa Local Municipality

Annual Financial Statements for the year ended 30 June 2015

Notes to the Annual Financial Statements

Figures in Rand	2015	2014
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7. Employee benefit obligations (continued)

Key assumptions used

Assumptions used at the reporting date:

Discount rates used	8.92 %	9.56 %
General inflation	6.48 %	6.30 %
Medical cost trend rates	7.98 %	7.80 %
Real rate (Gap)	0.87 %	1.63 %
Expected retirement age	63	63

The discount rate was determined by taking the average yields from the zero coupon government bond curve over a 15 to 20 year term. The recommended discount rate as at 30 June 2015 is 8.92%.

The general inflation assumption was used to estimate the base rate for determining the rate at which the future health care subsidies will increase. Market pricing inflation was estimated by comparing the yields on real and nominal bonds on the yield curve with a duration of between 15 and 20 years and have incorporated an inflation risk premium of 0,5% per annum.

It was assumed that medical inflation will exceed general inflation by 1,5% per annum. Even though the actual values used for the discount rate and the expected increase in medical subsidies are important, the "gap" between the two assumptions are more important. This "gap" is referred to as the net discount rate. The net discount rate has decreased from 1,63% p.a. to 0,87% p.a.

We assumed that the pre- retirement mortality will be in line with SA85-90 (light) table, rated down by 1 year. The assumption is the same as the previous assumption used. Post-retirement mortality assumptions were based on the PA(90) mortality tables rated down by 2 years.

The assumed retirement age of 63 for all employees has been retained, which implicitly allows for some early retirement and is consistent with assumptions used for valuing other municipal liabilities. It should however be noted that by assuming a normal retirement age of 63 there is an implicit assumption that service stops accruing at age 63.

There is a probability that not all employees will elect to remain on the current medical scheme post retirement. We have retained the assumption used last year that 90% of current employees who are on a company sponsored medical scheme will remain on the same medical scheme and option post retirement.

In respect of active Employees, we have assumed that 90% of members will be married at retirement and that the female spouse will be 3 years younger than the male spouse. We have further assumed that Employees will not have any dependent children once they retire.

We have used an approximate age difference of 3 years for the spouse to value the retired employees.

8. Inventories

Consumable stores	22 642 817	13 946 189
Land	67 619 405	67 619 405
	<hr/>	<hr/>
	90 262 222	81 565 594
Inventories (write-downs)	(7 651 662)	-
	<hr/>	<hr/>
	82 610 560	81 565 594

Ba-Phalaborwa Local Municipality

Annual Financial Statements for the year ended 30 June 2015

Notes to the Annual Financial Statements

Figures in Rand	2015	2014
9. Consumer debtors		
Gross balances		
Rates	115 883 666	117 117 288
Electricity	40 862 598	43 234 814
Refuse	40 150 500	35 220 527
Traffic fines	19 464 881	12 416 686
Sundry debtors	17 373 503	6 475 162
Other debtors	132 778 843	114 217 392
	366 513 991	328 681 869
Less: Allowance for impairment		
Rates	(88 833 406)	(85 356 413)
Electricity	(28 027 652)	(28 368 936)
Refuse	(31 113 756)	(25 669 121)
Traffic fines	(18 073 372)	(10 321 841)
Other debtors	(100 480 844)	(83 242 936)
	(266 529 030)	(232 959 247)
Net balance		
Rates	27 050 260	31 760 875
Electricity	12 834 946	14 865 878
Refuse	9 036 744	9 551 406
Traffic fines	1 391 509	2 094 845
Sundry debtors	17 373 503	6 475 162
Other debtors	32 297 999	30 974 456
	99 984 961	95 722 622
Included in above is receivables from exchange transactions		
Electricity	12 834 946	14 865 878
Refuse	9 036 744	9 551 406
Sundry debtors	17 373 503	6 475 162
Other debtors	32 297 999	30 974 456
	71 543 192	61 866 902
Included in above is receivables from non-exchange transactions (taxes and transfers)		
Rates	27 050 260	31 760 875
Traffic fines	1 391 509	2 094 845
	28 441 769	33 855 720
Net balance	99 984 961	95 722 622
Rates		
Current (0 -30 days)	7 639 584	9 343 342
31 - 60 days	2 648 627	3 360 282
61 - 90 days	2 567 822	3 191 951
91 - 120 days	103 027 633	101 221 713
Less : Allowance for impairment	(88 833 406)	(85 356 413)
	27 050 260	31 760 875

Ba-Phalaborwa Local Municipality

Annual Financial Statements for the year ended 30 June 2015

Notes to the Annual Financial Statements

Figures in Rand	2015	2014
9. Consumer debtors (continued)		
Electricity		
Current (0 -30 days)	12 651 943	12 557 570
31 - 60 days	1 403 021	3 016 417
61 - 90 days	835 537	1 434 442
91 - 120 days	25 972 097	26 226 385
Less : Allowance for impairment	(28 027 652)	(28 368 936)
	12 834 946	14 865 878
Refuse		
Current (0 -30 days)	1 898 665	1 830 707
31 - 60 days	726 559	713 956
61 - 90 days	703 422	690 169
91 - 120 days	36 821 854	31 985 695
Less : Allowance for impairment	(31 113 756)	(25 669 121)
	9 036 744	9 551 406
Traffic fines		
Current (0 -30 days)	7 048 195	12 416 686
91 - 120 days	12 416 686	-
Less : Allowance for impairment	(18 073 372)	(10 321 841)
	1 391 509	2 094 845
Sundry debtors		
Current (0 -30 days)	17 373 503	6 475 162
Other (specify)		
Current (0 -30 days)	12 992 903	11 998 933
31 - 60 days	6 454 190	5 775 712
61 - 90 days	6 297 824	5 680 189
91 - 120 days	107 033 925	90 762 557
Less : Allowance for impairment	(100 480 843)	(83 242 935)
	32 297 999	30 974 456

Ba-Phalaborwa Local Municipality

Annual Financial Statements for the year ended 30 June 2015

Notes to the Annual Financial Statements

Figures in Rand	2015	2014
9. Consumer debtors (continued)		
Summary of debtors by customer classification		
Consumers		
Current (0 -30 days)	19 827 855	17 634 347
31 - 60 days	7 086 545	5 906 575
61 - 90 days	6 342 113	5 521 547
91 - 120 days	251 411 511	203 823 356
	<u>284 668 024</u>	<u>232 885 825</u>
Less: Allowance for impairment	(213 734 865)	(177 812 184)
	<u>70 933 159</u>	<u>55 073 641</u>
Industrial/ commercial		
Current (0 -30 days)	4 173 327	6 981 400
31 - 60 days	1 861 699	3 695 687
61 - 90 days	1 417 432	2 310 684
91 - 120 days	55 508 267	55 875 271
	<u>62 960 725</u>	<u>68 863 042</u>
Less: Allowance for impairment	(50 565 899)	(53 599 704)
	<u>12 394 826</u>	<u>15 263 338</u>
National and provincial government		
Current (0 -30 days)	(5 752 056)	(3 019 871)
31 - 60 days	948 761	777 407
61 - 90 days	829 434	722 456
91 - 120 days	22 859 103	20 853 258
	<u>18 885 242</u>	<u>19 333 250</u>
Less: Allowance for impairment	(2 228 266)	(1 547 359)
	<u>16 656 976</u>	<u>17 785 891</u>
Total		
Current (0 -30 days)	18 249 126	21 595 876
31 - 60 days	9 897 005	10 379 669
61 - 90 days	8 588 979	8 554 687
91 - 120 days	329 778 881	288 151 637
	<u>366 513 991</u>	<u>328 681 869</u>
Less: Allowance for impairment	(266 529 030)	(232 959 247)
	<u>99 984 961</u>	<u>95 722 622</u>
Reconciliation of allowance for impairment		
Balance at beginning of the year	(232 959 247)	(74 026 970)
Contributions to allowance	(62 304 975)	(171 118 693)
Debt impairment written off against allowance	28 735 192	12 186 416
	<u>(266 529 030)</u>	<u>(232 959 247)</u>

Ba-Phalaborwa Local Municipality

Annual Financial Statements for the year ended 30 June 2015

Notes to the Annual Financial Statements

Figures in Rand	2015	2014
10. Cash and cash equivalents		
Cash and cash equivalents consist of:		
Cash on hand	130	-
Bank balances	2 710 893	26 385
Short-term deposits	534 807	158 634
Bank overdraft	-	(17 962 506)
	3 245 830	(17 777 487)
Current assets	3 245 830	185 019
Current liabilities	-	(17 962 506)
	3 245 830	(17 777 487)

The municipality had the following bank accounts

Account number / description	Bank statement balances			Cash book balances		
	30 June 2015	30 June 2014	30 June 2013	30 June 2015	30 June 2014	30 June 2013
Standard Bank - Cheque Account : 330451367000	1 851 670	489 987	1 137 493	590 906	(18 037 433)	1 137 493
Standard Bank - Investment Account : 238711102001	98 421	4 393	256 255	98 421	4 393	252 860
Standard Bank - Investment Account : 238711102002	24 061	37 915	1 543	24 061	37 915	1 543
Standard Bank - Investment Account : 238711102004	60 402	21 358	403 389	60 402	21 358	403 389
Standard Bank - Investment Account : 238711102005	258 885	1 959	177 963	258 885	1 959	177 963
Standard Bank - Current Account : 243098804000	2 119 987	26 385	81 655	2 119 987	26 385	-
ABSA - Call Account : 4061623641	5 002	79 936	5 234	5 001	79 936	5 234
ABSA - Fixed deposit : 2064270257	88 000	88 000	88 000	88 167	88 000	88 000
Total	4 506 428	749 933	2 151 532	3 245 830	(17 777 487)	2 066 482

Ba-Phalaborwa Local Municipality

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Notes to the Annual Financial Statements

Figures in Rand	2015	2014
11. Finance lease obligation		
Minimum lease payments due		
- within one year	220 292	308 060
- in second to fifth year inclusive	150 451	367 153
	<u>370 743</u>	<u>675 213</u>
less: future finance charges	(26 976)	(68 178)
Present value of minimum lease payments	<u>343 767</u>	<u>607 035</u>
Present value of minimum lease payments due		
- within one year	198 319	266 858
- in second to fifth year inclusive	145 448	340 177
	<u>343 767</u>	<u>607 035</u>
Non-current liabilities	141 858	340 177
Current liabilities	201 909	266 858
	<u>343 767</u>	<u>607 035</u>

It is municipality policy to lease certain motor vehicles under finance leases.

The average lease term was 4 years and the average effective borrowing rate was 9% (2014: 10%).

The municipality's obligations under finance leases are secured by the lessor's charge over the leased assets. Refer note 5.

12. Operating lease prepayment (liability)

Current assets	355 736	-
Current liabilities	(483 788)	(155 573)
	<u>(128 052)</u>	<u>(155 573)</u>

The operating lease prepayment relates to the amount prepaid for vehicles being leased from ABSA Asset Management Solutions (Pty) Ltd.

The operating lease liability relates to the accrual for Nashua invoices not paid at year end for the rental of office machines.

13. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

Unspent conditional grants and receipts

Municipal Infrastructure Grant	-	7 141 196
Neighbourhood Development Partnership Grant	-	1
	<u>-</u>	<u>7 141 197</u>

Unfulfilled conditions and other contingencies attaching to government assistance that has been recognised.

See note 25 for reconciliation of grants from National/Provincial Government.

These amounts are invested in a ring-fenced investment until utilised.

Ba-Phalaborwa Local Municipality

Annual Financial Statements for the year ended 30 June 2015

Notes to the Annual Financial Statements

Figures in Rand

14. Provisions

Reconciliation of provisions - 2015

	Opening Balance	Change in expected costs capitalised	Utilised during the year	Change in discount factor	Acturial (gain)/loss	Total
Environmental rehabilitation	16 671 000	(248 732)	-	-	-	16 422 268
Employee benefit cost	4 487 271	441 011	(390 563)	379 623	(158 104)	4 759 238
	21 158 271	192 279	(390 563)	379 623	(158 104)	21 181 506

Reconciliation of provisions - 2014

	Opening Balance	Change in expected costs capitalised	Utilised during the year	Current cost	Change in discount factor	Acturial (gain)/loss	Total
Environmental rehabilitation	9 177 856	7 493 144	-	-	-	-	16 671 000
Employee benefit cost - Long service awards	6 748 000	-	(1 045 803)	608 000	473 835	(2 296 761)	4 487 271
	15 925 856	7 493 144	(1 045 803)	608 000	473 835	(2 296 761)	21 158 271

Environmental rehabilitation provision

Ba-Phalaborwa Local Municipality

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Figures in Rand	2015	2014
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14. Provisions (continued)

The provision for land fill sites rehabilitation relates to estimated cost for the rehabilitation of four(4) land fill sites operated by the municipality.

Ba-Phalaborwa landfill site is expected to be used for the next 10 to 15 years and it is estimated that R13,607,000 will be spent to rehabilitate the site.

Lulekani landfill site has been closed and is in the process of being cleaned as waste is being transferred to the Ba-Phalaborwa landfill site. A total of R321,000 is expected to be spent on the project.

Namakgale landfill site is expected to be in operation for the next 20 to 25 years and the estimated cost of rehabilitating the site is R1,950,991.

Gravelotte landfill site has been recommended for closure as it does not comply with the minimum requirements of a landfill site. The estimated cost for rehabilitating the site is R543,277.

The evaluation, audit and computation of the provision for rehabilitation of the sites have been carried out by M Consulting Chartered Accountants and E - Tek Consulting Environmental Engineers.

An indication of the uncertainties about the amount or timing of those outflows. Where necessary to provide adequate information, an entity shall disclose the major assumptions made concerning future events, as addressed in paragraph .61.

The amount of any expected reimbursement, stating the amount of any asset that has been recognised for that expected reimbursement.

Employee benefit cost provision - Long service awards

The municipality operates an unfunded defined benefit plan for all its employees. Under the plan, a Long-service Award is payable after 10 years of continuous service and every 5 years thereafter to employees. The provision is an estimate of the long-service based on historical staff turnover. No other long-service benefits are provided to employees.

The most recent actuarial valuations of plan assets and the present value of the defined benefit obligation were carried out at 30 June 2015 by Krishen Sukdev, from Independent Actuaries and Consultants (Pty) Ltd, a Fellow of the Actuarial Society of South Africa.

The present value of the defined benefit obligation, and the related current service cost and past service cost, were measured using the Projected Unit Credit Method.

At year end 30 June 2015, 410 (2014: 427) employees were eligible for Long-services Awards.

The principal assumptions used for the purposes of the actuarial valuation were as follows:

Discount rate	8.29%	8.46%
General inflation	5.93%	6.24%
Salary Inflation	6.93%	7.24%
Real Rate (Gap)	1.27%	1.14%
Average retirement age	63	63

Ba-Phalaborwa Local Municipality

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Figures in Rand	2015	2014
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14. Provisions (continued)

Emphasis is placed on the duration of liabilities when determining the discount rate. The discount rate is based on the yields from the zero coupon government bond curve.

The general inflation assumption is used to estimate the base rate for determining the rate at which the future salaries will increase.

Market pricing of inflation estimate was determined by comparing the yields on real and nominal bonds on the yields curve with a duration of between 7,5 years and have incorporated an inflation risk premium of 0,5% per annum. The implied inflation assumption is therefore 5,93% per annum for future inflation.

Future salaries can be expected to increase in line with salary inflation. We assumed salary inflation will exceed general inflation by 1,0% per annum.

The Municipality does not have any specific assets set aside to fund this liability.

Net Discount Rate - Even though the actual values used for the discount rate and the expected increase in salaries are important, the gap between the two assumptions are more important. This gap is referred to as the net discount rate. The net discount rate is 1,27% per annum. (Derived from a discount rate of 8,29% and the expected salary inflation rate of 6,93%).

Demographic Valuation Assumptions - Pre-retirement mortality, we have assumed that the pre-retirement mortality will be in line with SA85-90 light table rated down by 1 year. The table reflects mortality experience in South Africa. This assumption is in line with the previous assumptions used.

Assumed Retirement Age - The normal retirement age is 65 years of age. We have retained the assumed retirement age of 63 for all employees which implicitly allows for some early retirement and is consistent with assumptions used for valuing other Employer liabilities. It should however be noted that by assuming a normal retirement age of 63 there is an implicit assumption that services stops accruing at age 63.

15. Payables from exchange transactions

Trade payables	45 008 830	23 059 920
Payments received in advance	1 565 669	1 232 576
Sundry payables	20 694 199	13 732 331
Accrued leave pay	8 636 886	8 128 956
Retentions	5 428 332	4 611 993
Provision for staff bonuses	2 011 587	866 867
Other Creditors	1 179 070	330 924
Payroll accruals	4 231 951	1 176 908
Mopani District Municipality (Water and Sanitation)	264 141 956	208 647 105
	352 898 480	261 787 580

16. VAT payable

Value added tax	10 722 895	2 444 704
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VAT is payable on the receipts basis. VAT is paid over to SARS only once payment is received from debtors.

No interest is payable to SARS if the VAT is paid over timeously, but interest for late payments is charged according to SARS policies. The municipality has financial risk policies in place to ensure that payments are effected before the due date.

17. Consumer deposits

Electricity	3 738 397	3 622 185
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Ba-Phalaborwa Local Municipality

Annual Financial Statements for the year ended 30 June 2015

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Figures in Rand 2015 2014

18. Financial instruments disclosure

Categories of financial instruments

2015

Financial assets

	At fair value	At amortised cost	Total
Consumer debtors	-	99 984 961	99 984 961
Cash and cash equivalents	3 242 830	-	3 242 830
	3 242 830	99 984 961	103 227 791

Financial liabilities

	At fair value	At amortised cost	Total
Trade and other payables from exchange transactions	-	358 989 480	358 989 480
VAT payable	-	10 722 895	10 722 895
Consumer deposits	-	3 738 397	3 738 397
Employee benefit obligation	38 333 000	-	38 333 000
	38 333 000	373 450 772	411 783 772

2014

Financial assets

	At fair value	At amortised cost	Total
Consumer debtors	-	95 722 622	95 722 622
Cash and cash equivalents	185 019	-	185 019
	185 019	95 722 622	95 907 641

Financial liabilities

	At fair value	At amortised cost	Total
Trade and other payables from exchange transactions	-	261 787 580	261 787 580
Taxes and transfers payable (non-exchange)	-	2 444 704	2 444 704
Bank overdraft	17 962 506	-	17 962 506
Consumer deposits	-	3 622 185	3 622 185
Employee benefit obligation	26 841 000	-	26 841 000
	44 803 506	267 854 469	312 657 975

Ba-Phalaborwa Local Municipality

Annual Financial Statements for the year ended 30 June 2015

Notes to the Annual Financial Statements

Figures in Rand	2015	2014
19. Revenue		
Service charges	99 013 201	96 581 668
Rental of facilities and equipment	265 470	228 157
Income from agency services	5 324 933	9 458 878
Licences and permits	2 257 105	3 121 311
Other income	2 561 907	2 297 317
Interest received - investment	30 175 946	31 448 892
Property rates	65 593 648	57 238 528
Government grants & subsidies	126 400 672	105 162 944
Levies	178 081	283 140
Fines	8 822 814	15 242 850
Agency fees	88 715	-
Other transfer revenue	4 499 921	-
	345 182 413	321 063 685
The amount included in revenue arising from exchanges of goods or services are as follows:		
Service charges	99 013 201	96 581 668
Rental of facilities and equipment	265 470	228 157
Income from agency services	5 324 933	9 458 878
Licences and permits	2 257 105	3 121 311
Other income	2 561 907	2 297 317
Interest received - investment	30 175 946	31 448 892
	139 598 562	143 136 223
The amount included in revenue arising from non-exchange transactions is as follows:		
Taxation revenue		
Property rates	65 593 648	57 238 528
Transfer revenue		
Government grants & subsidies	126 400 672	105 162 944
Indigent Support FBS	178 081	283 140
Fines	8 822 814	15 242 850
Donations	88 715	-
Other transfer revenue	4 499 921	-
	205 583 851	177 927 462
20. Property rates		
Rates received		
Residential	65 593 648	57 238 528
Valuations		
Residential	2 918 197 005	2 918 197 005
Commercial	2 933 472 796	2 933 472 796
State	8 807 000	8 807 000
Municipal	570 407 623	570 407 623
Agriculture	23 546 166	23 546 166
Other	32 148 320	32 148 320
	6 486 578 910	6 486 578 910

The last general valuation came into effect on 1 July 2009.

The new general valuation was implemented on 01 July 2015.

Ba-Phalaborwa Local Municipality

Annual Financial Statements for the year ended 30 June 2015

Notes to the Annual Financial Statements

Figures in Rand	2015	2014
21. Service charges		
Sale of electricity	87 607 729	86 159 293
Refuse removal	11 405 472	10 422 375
	99 013 201	96 581 668
22. Other transfer revenue		
Donations- Foskor Mine	2 631 579	-
Contributions from Department of Energy	489 662	-
Insurance claim	1 378 680	-
	4 499 921	-
23. Other income		
Building plan fees	308 002	291 788
Cemetery fees	154 792	97 830
Clearance certificates	83 630	79 212
Connection fees	796 871	673 492
Library income	138 869	93 636
Sundry income	159 719	190 442
Selling of bid documents	243 720	156 580
Selling of land	340 592	707 607
Posters and banners	335 712	6 730
	2 561 907	2 297 317
24. Interest revenue		
Interest revenue		
Bank	276 984	358 652
Interest charged on trade and other receivables	29 898 962	31 090 240
	30 175 946	31 448 892

Ba-Phalaborwa Local Municipality

Annual Financial Statements for the year ended 30 June 2015

Notes to the Annual Financial Statements

Figures in Rand	2015	2014
25. Grants and subsidies		
Equitable share	83 256 196	69 432 141
Financial management grant	1 600 000	1 550 000
Municipal infrastructure grant	29 769 000	32 290 804
Municipal system improvement grant	934 000	890 000
National development program grant	644	(1)
Intergrated national electrification grant	9 000 000	-
Local government sector education training authority grant	628 832	-
Expanded public works programme grant	1 212 000	1 000 000
	<u>126 400 672</u>	<u>105 162 944</u>

Equitable Share

In terms of the Constitution, this grant is used to subsidise the provision of basic services to indigent community members.

Municipal infrastructure grants

Balance unspent at beginning of year	7 141 196	-
Current-year receipts	29 769 000	39 432 000
Conditions met - transferred to revenue	(29 769 000)	(32 290 804)
Transfer to Equitable Share grant	(7 141 196)	-
	<u>-</u>	<u>7 141 196</u>

The Municipal Infrastructure grant was allocated for the construction of roads and electricity infrastructure as part of the upgrading of previously disadvantaged areas.

Intergrated national electrification grant

Balance unspent at beginning of year	-	1 628 618
Current-year receipts	9 000 000	-
Conditions met - transferred to revenue	(9 000 000)	-
Paid back to National Treasury	-	(1 628 618)
	<u>-</u>	<u>-</u>

Municipal systems improvement grant

Current-year receipts	934 000	890 000
Conditions met - transferred to revenue	(934 000)	(890 000)
	<u>-</u>	<u>-</u>

The grant was used to improve municipal systems and was used to improve information technology networks and ward committee operations.No funds have been withheld.

Financial management grants

Current-year receipts	1 600 000	1 550 000
Conditions met - transferred to revenue	(1 600 000)	(1 550 000)
	<u>-</u>	<u>-</u>

Ba-Phalaborwa Local Municipality

Annual Financial Statements for the year ended 30 June 2015

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Figures in Rand	2015	2014
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25. Grants and subsidies (continued)

The Financial management grant (FMG) is paid to the municipality to help implement the financial reforms required by the municipal financial management act of MFMA 2003. The grant also pays for the cost of the financial management internship programme i.e. salary of the financial management interns.

Expanded public works grant (EPWP)

Current-year receipts	1 212 000	1 000 000
Conditions met - transferred to revenue	(1 212 000)	(1 000 000)
	-	-

The grant was received from the Department of public works for the creation of jobs in the municipal area and to incentivise provincial department to expand work creation efforts through the use of labour intensive delivery methods in identified focus area e.g road maintenance and maintenance of building and other economic and social infrastructure.

Neighbourhood development partnership grant

Balance unspent at beginning of year	1	882 523
Conditions met - transferred to revenue	(1)	-
Paid back to National Treasury	-	(882 522)
	-	1

Local government sector education training authority grant

Current-year receipts	628 832	-
Conditions met - transferred to revenue	(628 832)	-
	-	-

Ba-Phalaborwa Local Municipality

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Figures in Rand	2015	2014
26. General expenses		
Accommodation	1 189 169	1 074 659
Advertising	1 343 183	1 121 333
Auditors remuneration	2 974 314	3 319 557
Bank charges	1 836 737	1 527 942
Cleaning	3 107	3 633
Commission paid	1 570 423	-
Financial Management System Support expenses	2 479 639	-
Consulting and professional fees - internal audit	307 999	-
Consumables	2 549 913	2 023 964
Entertainment	325 627	155 017
Fines and penalties	1 655 315	-
Hire of equipment	404 864	600 052
Community development and training	4 512 468	3 586 694
IT expenses	638 485	636 781
Integrated national electrification expenditure	7 894 730	-
Expanded Public Works Program expenses	1 007 649	991 084
Motor vehicle licence fees	17 478	104 406
Electricity non-bulk purchases	6 385 230	4 104 424
Motor vehicle expenses	2 226 742	1 918 396
Occupational health and safety	427 883	278 454
Fuel and oil	4 317 174	3 979 099
Placement fees	506 807	373 973
Postage and courier	391 426	511 003
Printing and stationery	1 368 722	1 216 798
Purchase of prepaid boxes	582 236	19 969
Protective clothing	911 547	1 025 774
Project maintenance costs	1 540 418	357 644
Staff welfare	639 332	429 920
Subscriptions publications and membership fees	1 534 794	2 156 490
Telephone and fax	1 943 355	1 507 513
Training	1 759 291	1 515 288
Travel - local	208 555	146 409
Title deeds registration fees	206 774	14 194
Assets expensed	2 250	12 993
Road markings and signs	-	312
Traffic law enforcement expenses	496 122	-
Workmens compensation	1 831 381	-
	57 991 139	34 713 775

Ba-Phalaborwa Local Municipality

Annual Financial Statements for the year ended 30 June 2015

Notes to the Annual Financial Statements

Figures in Rand	2015	2014
27. Employee related costs		
Basic	65 038 140	58 949 498
Bonus	5 831 476	3 737 408
Medical aid - company contributions	3 029 599	2 669 807
UIF	566 861	575 420
Industrial Council Levies	29 238	30 463
SDL	847 034	800 451
Contribution to group insurance	204 399	174 869
Leave pay provision charge	507 931	(2 600 241)
Defined contribution plans	11 494 240	11 300 836
Travel, motor car, accommodation, subsistence and other allowances	11 857 594	11 694 964
Overtime payments	3 731 421	3 219 552
Long-service awards	3 013 078	1 149 051
Acting allowances	931 009	617 300
Housing benefits and allowances	614 957	636 722
Defined benefit plan expense	12 941 530	(1 742 925)
Stipends	2 043 000	2 067 043
Industrial attachment allowance	415 994	323 136
	123 097 501	93 603 354
Remuneration of Municipal manager		
Annual Remuneration	805 188	766 302
Car Allowance	536 792	580 850
Subsistence allowances	68 646	3 034
Other allowances	35 763	19 179
	1 446 389	1 369 365
Remuneration of chief finance officer		
Annual Remuneration	795 303	456 900
Car Allowance	234 000	308 463
Cellphone allowances	18 000	18 000
Subsistence allowances	51 299	3 611
Other allowances	27 837	324 383
	1 126 439	1 111 357
Remuneration of director planning and development services		
Annual Remuneration	183 493	493 569
Car Allowance	111 331	367 340
Performance Bonuses	138 731	-
Contributions to UIF, Medical and Pension Funds	6 000	18 000
Other	-	3 982
Other	22 372	37 114
	461 927	920 005
Remuneration of Director community services		
Annual Remuneration	525 890	582 040
Car Allowance	136 717	202 670
Cellphone allowances	12 000	18 000
other allowances	-	868
Other benefits	102 288	214 281
	776 895	1 017 859

Ba-Phalaborwa Local Municipality

Annual Financial Statements for the year ended 30 June 2015

Notes to the Annual Financial Statements

Figures in Rand	2015	2014
27. Employee related costs (continued)		
Remuneration Director corporate services		
Annual Remuneration	610 211	565 046
Car Allowance	204 741	197 508
Performance Bonuses	25 676	-
Contributions to UIF, Medical and Pension Funds	39 000	-
Other	-	1 338
Other	223 260	225 723
	1 102 888	989 615
28. Remuneration of councillors		
Executive Mayor	786 252	711 875
Mayoral Committee Members	3 012 844	2 673 898
Speaker	641 873	579 633
Councillors	6 726 357	5 930 520
Chief Whip	622 299	597 986
	11 789 625	10 493 912
29. Fair value adjustments		
Biological assets	44 229	30 330
30. Impairment of assets		
Impairments		
Property, plant and equipment	3 189 651	-
Inventories	7 651 662	548 402
The impairment arose from the write down of some inventory to net realisable value as well as inventory losses.		
Trade and other receivables	62 304 976	171 118 692
The impairment of receivables arose from the assessment of the recoverability of the municipality's trade and other receivables.		
	73 146 289	171 667 094
31. Auditors' remuneration		
External audit fees	2 974 314	3 319 557
32. Rental of facilities and equipment		
Premises		
Premises	93 592	70 101
Theatre hire	115 032	115 340
	208 624	185 441
Facilities and equipment		
Rental of facilities	56 846	42 549
Rental of equipment	-	167
	56 846	42 716
	265 470	228 157

Ba-Phalaborwa Local Municipality

Annual Financial Statements for the year ended 30 June 2015

Notes to the Annual Financial Statements

Figures in Rand	2015	2014
33. Contracted services		
Security expenses	6 637 157	4 976 999
Legal and meter reading	15 081 657	16 761 234
Operating Leases	2 525 897	3 199 752
Specialist Services - Management and consulting fees	16 201 879	19 413 781
Insurance expenses	4 098 054	2 244 109
	44 544 644	46 595 875
34. Bulk purchases		
Electricity	65 625 967	67 501 132
		-
<p>Included in the electricity bulk purchases is the 34% (2014:30%) which relate to distribution losses. Ba-Phalaborwa Municipality gets billed by Eskom on a monthly basis for electricity used/or given to Ba-Phalaborwa Municipality based on readings. Therefore the amount paid to/billed by Eskom includes electricity losses of R21 390 916 (2014: R18 955 915). The loss in terms of Units amounted to 21 655 110 kWh (2014: 20 223 604 kWh).</p>		
35. Finance costs		
Non-current borrowings	37 808	67 364
Trade and other payables	-	(15 472)
Other interest paid	193 530	75 703
	231 338	127 595
36. Operating deficit		
Operating deficit for the year is stated after accounting for the following:		
Operating lease charges		
Motor vehicles		
• Contractual amounts	1 131 583	1 131 583
Equipment		
• Contractual amounts	1 349 848	2 068 169
Lease rentals on operating lease - Other		
• Contractual amounts	44 466	-
	2 525 897	3 199 752
Impairment on property, plant and equipment	3 189 651	-
Impairment on trade and other receivables	62 304 976	171 118 692
Amortisation on intangible assets	429 624	4 519
Depreciation on property, plant and equipment	59 697 539	56 863 980
Employee costs	134 887 126	104 249 274

Ba-Phalaborwa Local Municipality

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Notes to the Annual Financial Statements

Figures in Rand	2015	2014
37. Cash generated from operations		
Deficit	(104 931 962)	(175 313 531)
Adjustments for:		
Depreciation and amortisation	60 127 163	56 868 499
Fair value adjustments	(44 229)	(30 330)
Finance costs	231 338	127 595
Impairment deficit	73 146 289	171 667 094
Movements in operating lease assets and accruals	(27 521)	155 573
Movements in retirement benefit assets and liabilities	11 492 000	(403 000)
Movements in provisions for long service award	271 967	(1 736 729)
Changes in working capital:		
Inventories	(8 696 628)	(5 026 839)
Provision for impairment	(62 304 976)	(171 118 692)
Consumer debtors	(4 262 339)	131 139 910
Payables from exchange transactions	91 110 899	2 473 008
VAT	8 278 191	12 992 237
Unspent conditional grants and receipts	(7 141 197)	4 630 056
Consumer deposits	116 212	641 207
	57 365 207	27 066 058

38. Commitments

Authorised capital expenditure

Already contracted for but not provided for

• Infrastructure assets	106 563 229	122 948 827
• Order issued(Operational commitment)	2 098 089	-
	108 661 318	122 948 827

This committed expenditure relates to Infrastructure assets and management fees (consultancy) and will be financed by available bank facilities, Municipal infrastructure grants, existing cash resources and funds internally generated.

Operating lease - as lessee - Vehicles and office machines

The municipality is leasing certain vehicles from ABSA Vehicle Management Solutions (Pty) Ltd under an operating lease. The lease is being renewed on a month to month basis.

The municipality is leasing a number of office machines from Nashua under an operating lease arrangement. The leases are being renewed on a month to month basis.

Operating leases - as lessee - Buildings

The municipality is leasing some of its office properties from Public Investment Corporation (Trading as Comprop) in terms of an operating lease arrangement. The lease is renewable on a monthly basis. No contingent rent is payable.

Ba-Phalaborwa Local Municipality

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Notes to the Annual Financial Statements

Figures in Rand	2015	2014
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39. Contingencies

The total amount for contingent liabilities is R 14 102 876 (2014: R 16 614 656)

All the litigations and claims against the municipality are in progress and relate to disputes with the following parties:

Mabasa Jamela: A claim of R60,000 has been made against the municipality for damages as a result of a faulty house plan drawn for the claimant by a municipal employee. The municipality's lawyers and management consider the likelihood of the action against the municipality being successful as unlikely as the employee drew the plan in his personal capacity and he was not employed by the municipality to draw plans.

Tlhaole Dynamics: The entity was contracted by the municipality to compile the valuation and supplementary valuation roll and later claims that it was not paid according to the contract. The plaintiff is claiming R2,689,811 against the municipality.

M-Cubed Technologies was engaged to erect electronic billboards which they did not erect properly according to the specifications and on this basis their contract was terminated and now the entity is claiming R1,235,763 against the municipality.

Quality plant hire claims an amount of R183,216 for the tools it allegedly hired to the municipality in 2011 and the matter is proceeding to hearing. The municipality's lawyers and management consider the likelihood of the action against the municipality being successful as unlikely as the road is a provincial road.

Makwande Chartered Accountants: The matter relates to the preparation of municipal financial statements for the year ended 30 June 2009. The claimant failed to deliver the reports and the contract was terminated. The claimant is now claiming unpaid fees debt of R2,348,105. The municipality's lawyers and management consider the likelihood of the action against the municipality being successful as unlikely. The matter has been postponed indefinitely after the claimant's legal representatives failed to show up at the court.

Eugene Coetzee: Eugene is claiming R28,855 from the municipality for damages caused to his by a pothole within the municipality jurisdiction. The municipality's lawyers and management consider the likelihood of the action against the municipality being successful as unlikely as the road is a provincial road.

Tippuprox (Pty) Ltd: The company was awarded a tender by the municipality which was later cancelled by the municipality due to misrepresentations made during the tendering process by the owner of the company. The company raised a claim against the municipality of R6,600,000.

Telkom South Africa: The company is claiming R86,435 for the damages caused to their infrastructure by the municipality. The municipality's lawyers and management consider the likelihood of the action against the municipality being successful as unlikely as the road is a provincial road.

LE Thom (Pty) Ltd claims R844 797 against the Municipality for work they did which they claim the Municipality failed to do while in fact they are the ones who prevented the Municipality to do the job.

Mahlatse Patience Ramoshaba: A claim of R25,895 has been made against the municipality for the damage caused to the claimant's car by a pothole on the R71 road. The municipality's lawyers and management consider the likelihood of the action against the municipality being successful as unlikely as the road is a provincial road.

Ba-Phalaborwa Local Municipality

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Notes to the Annual Financial Statements

Figures in Rand	2015	2014
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40. Related parties

Relationships

Accounting Officer
 Accounting officer
 Names of councillors
 Cllr. NA Sono
 Cllr.MD Maake
 Cllr.SL Mohlala
 Cllr.MM Malatji
 Cllr.IF Mpenyane
 Cllr. SR De Beer
 Cllr.KS Malatji
 Cllr. A Peta
 Cllr.T Nkuna
 Cllr.Mapanzela V.P. (Resigned in Sep 2014)
 Cllr.Mhlarhi K.P. (Resigned in Sep 2014)
 Cllr.Rapatsa M.D. (Resigned in Sep 2014)
 Cllr.Engelbrecht E. (Resigned in Sep 2014)
 Members of key management
 Municipal manager
 Chief finance office
 Director Corporate Services
 Director Community services
 Director Spatial planning and development
 Director technical services

 Acting Director: Technical Services
 Acting Director: Planning and Development
 Acting Director: Planning and Development
 Acting CFO
 Acting Director: Community and Social Services

Refer to accounting officer's report note

Dr Sebashe SS

Position

Mayor

Speaker

Chief Whip

Member of Executive Committee

Member of Executive Committee

Member of Executive Committee

Member of Executive Committee

Member of Executive Committee

Member of Executive Committee

Member of Executive Committee

Member of Executive Committee

Member of Executive Committee

Member of Executive Committee

Name

Dr Sebashe SS

Mr Mushwana AF

Ms Moakamela MI

Mr Bayana JW

Ms Choenyana KM

Mr.Mpharalala K

(01/07/2014 - 31/12/2014)

(01/05/2015 - 31/12/2015)

Mr.Chiloane P.M. (01/02/2015 - 30/04/2015)

Mr. Seduma M.P (Terminated on 01/02/2015)

Ms.Louw Brenda (Appointed on 14/03/2015)

Mr. Ndzimande AT (Acting as at 01/04/2015)

Mr.Mokhabukhi N.S

Related party transactions

There were transactions between the municipality and the related parties during the year under review

There is a balance due to Mopani District Municipality disclosed in trade and other payables in the financial statements per note 15.

There were no transactions between the Ba-Phalaborwa Municipality, members of executive council, Mayor, Chief Whip, Speaker, Councillors, Municipal Manager and all other members of key Management except for their remunerations which are disclosed in notes number 27 and 28.

Key management information

Class	Description	Name of Entity
Secretary: planning and development	Mahlo Lerato Madgery	Mathebeleku Trading CC
Manager:Planning & Development	Chauke MF	100% Membership in Dzhuta Trading Enterprise
Director :Community Services	Mr James Willie Bayana	100% Shares Welkom Yizani Investments
Councillor	Malatji MD	RLD Civils
Councillor	Magomane MS	Mololomane Trading
Councillor	Otto KA	African Leader Manufactures
Councillor	Chauke MD	Khekhi Multi Trading and Solid
		Massage Trading and Projects
Councillor	Makwala MO	Main Sound Construction

Ba-Phalaborwa Local Municipality

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Notes to the Annual Financial Statements

Figures in Rand		2015	2014
40. Related parties (continued)			
Speaker	Maake MD		Waltzaz Projects and Waltsus Trading Enterprise
Councillor	Malesa MM		Hlangagane Trading Enterprise
Councillor	De Beer SR		Employed by Old Mutual
Councillor	Rapatsa D		Litirele Mosadi Trading Projects, Dodo General Trading, Retabane General Trading and Vincico Trading and Projects
Inter municipal transactions	Mopani District Municipality		Provision of water and sanitation services

41. Prior period errors

The municipality identified prior period errors during the process of preparing the annual financial statements. The errors have been corrected through the retrospective restatement of the comparative figures in the current year financial statements.

Ba-Phalaborwa Local Municipality

Annual Financial Statements for the year ended 30 June 2015

Notes to the Annual Financial Statements

Figures in Rand	2015	2014
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41. Prior period errors (continued)

The prior period errors corrected in the current financial year related to the following:

i -The municipality previously did not unbundle its various assets properly. The assets have been properly unbundled into various components of property plant and equipment (land and buildings), Investment property, Intangible assets and Inventory. The effect on the prior year balance is to increase the carrying amount of Investment property by R42 999 938, increase Inventory balance by R67 619 405, increase in carrying amount of Property plant and equipment R52 516 741 and increase in Accumulated surplus of R163 136 084.

ii- The municipality's accumulated depreciation was retrospectively restated due to the effect of the unbundling of the components of property plant and equipment. The effect on prior year balance is to reduce carrying amount of property plant and equipment by R251 496 230, increase depreciation expense by R4 146 084 and reduce accumulated surplus by R247 350 146.

iii - Municipality's assets which were erroneously included as part of repairs and maintenance expenditure in the prior year was corrected by capitalising the relevant property plant and equipment. The effect on prior year is to increase Property, plant and equipment by R1 856 720 and reduced repairs and maintenance expenses by R1 856 720.

iv - An error made by the professional valuer in the valuation of provision for the rehabilitation of landfill sites was also corrected retrospectively to the 2014 financial period where the error was made. The effect of the correction of the error on prior year is to reduce provision for rehabilitation of landfill sites by R3 000 000 and reduce the carrying amount of Property, plant and equipment by R3 000 000.

v - Errors made in the calculation of the provision for impairment for debtors was corrected in the 2014 financial period where the calculation error was made. The effect on prior year is decrease in Consumer debtors by R168 427 712 and increase in impairment loss expense of R168 427 712.

vi - The municipality made an error in calculating the provision for the impairment of inventory in the prior year. The error has been corrected by retrospectively restating the 2014 figures. The effect of the correction of the error on prior year is to reduce Inventory balance by R452 942, increase impairment loss by R548 402 and increase payables by R95 460.

vii - The municipality omitted Intangible assets acquired on credit in the 2014 financial year from its financial statements. The prior year figures were restated to correct the error. The effect of the correction of error on prior year is to increase the carrying amount of Intangible assets by R2 057 271, increase in Trade and other payables from exchange transactions by R2 061 790 and increase in amortisation expense of R4 519.

viii - Employee benefit liabilities which were erroneously allocated to Mopani District Municipality in prior years were corrected by restating the 2014 amounts. The effect of the correction of error on prior year is to increase Provisions by R325 897, increase Post retirement medical benefits by R856 605, reduce Employee expenses by R191 945, increase Accumulated surplus by R22 462 and reduce Trade and other payables from exchange transactions(Mopani creditor) by R1 397 000.

ix - VAT related to Mopani water transactions which was disclosed as part of VAT liability for the Municipality was correctly reallocated to Mopani District Municipality under trade and other payables. The effect of the correction of error on prior year is increase Trade and other payables from exchange transactions by R38 095 366 and reduce VAT liability by R38 095 366.

x - Interest related to water transactions which was erroneously included in Interest revenue for the municipality in prior year was corrected by restating the prior year figures. The effect of correction of the prior year error is increase Trade and other payables from exchange transactions by R73 518 975, reduce Interest revenue by R35 189 204 and reduce accumulated surplus by R38 329 771.

xi - The municipality's accounting system made an error in calculating interest on consumer debtors in the prior year. The error was corrected by restating the prior year figures. The effect of the correction of error on prior year is increase interest revenue by R10 738 461 and increase in Consumer receivables by R10 738 461.

xii - Traffic fines revenue was previously recognised on a cash instead of the accrual basis. The relevant revenue has been appropriately restated. The effect of the correction of error on prior year is increase Traffic

Ba-Phalaborwa Local Municipality

Annual Financial Statements for the year ended 30 June 2015

Notes to the Annual Financial Statements

Figures in Rand	2015	2014
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41. Prior period errors (continued)

finer revenue by R12 416 686 and increase Consumer debtors from non-exchange transactions by R12 416 686.

xiii - An error was made in the calculation of electricity revenue from prepaid meters. The error has been corrected by restating the prior year revenue figures. The effect of the correction of error is increase Revenue from exchange transactions - service charges by R289 292 and reduce Trade and other payables from exchange transactions by R289 292.

xiv - Five percent commission income from the collection of revenue for water transactions on behalf of Mopani district municipality was omitted in error from the prior year financial statements. The error has been corrected by restating prior year figures. The effect of the correction of error is increase Revenue from Agency services by R2 667 535 and increase Consumer receivables from exchange transactions by R2 667 535. In the prior year the municipality recognised 100% revenue in error instead of twenty percent commission from issuing of licences on behalf of the Limpopo Administration. The error has been corrected by restating the prior year figures. The effect of the correction of error on prior year is decrease Revenue from Agency services by R2 874 054 and increase in Trade and other payables from exchange transactions by R2 874 054.

xv - The municipality investigated and corrected long outstanding balances that were incorrectly recognised in the previous financial years. The effect of correcting such errors is increase Accumulated surplus R141 781 041, increase Consumer debtors by R22 966 464, reduce Trade and other payables by R118 814 578.

The correction of the above errors results in net adjustments as follows:

Statement of financial position

Decrease in Property, plant and equipment	(200 122 769)
Increase in Investment property	42 999 938
Increase in inventory	67 166 463
Increase in Intangible assets	2 057 271
Decrease in consumer debtors	(174 597 602)
Increase in cash and cash equivalents	29 785
Increase in operating lease liability	(155 573)
Decrease in provision for rehabilitation of Landfill sites	3 000 000
Increase in provision for Long service award	(325 897)
Increase in post retirement medical benefits	(856 605)
Decrease in Trade and other payables from exchange transactions	62 161 679
Decrease in VAT payable	37 201 635
Increase in opening accumulated surplus	(11 342 485)

Statement of Financial Performance

Decrease in Depreciation and amortisation expense	(4 141 042)
Decrease in employee costs	(311 921)
Increase in general expenses	1 806 359
Increase in contracted services expenses	155 572
Decrease in repairs and maintenance expense	(1 856 720)
Increase in impairment loss	168 976 113
Decrease in Interest income	24 450 743
Increase in income from Service charges	(3 077 303)
Decrease in Agency fees income	206 519
Increase in fines revenue	(12 416 686)
Increase in other income	(6 730)

42. Comparative figures

Certain comparative figures have been reclassified.

The effects of the reclassification are as follows:

Ba-Phalaborwa Local Municipality

Annual Financial Statements for the year ended 30 June 2015

Notes to the Annual Financial Statements

Figures in Rand	2015	2014
42. Comparative figures (continued)		
Statement of Financial Performance		
Employee related costs		(276 393)
Remuneration of councillors	-	153 750
Audit committee fees		122 643
Increase in indigent support FBS	-	(283 140)
Contracted services		20 383 937
General expenses		(20 100 797)
43. Change in estimate		
Property, plant and equipment		
In the current year the municipality revised the estimated useful lives and residual values of certain items of property plant and equipment. The effect of this revision has reduced the depreciation charges for the current year by R2 562 054 and future depreciation charges will be increased by the same amount.		
44. Risk management		
Liquidity risk		
The municipality's risk to liquidity is a result of the funds available to cover future commitments. The municipality manages liquidity risk through an ongoing review of future commitments and credit facilities.		
Cash flow forecasts are prepared and adequate utilised borrowing facilities are monitored.		
Credit risk		
Credit risk consists mainly of cash deposits, cash equivalents and trade debtors. The municipality only deposits cash with major banks with high quality credit standing and limits exposure to any one counter-party.		
Trade receivables comprise a widespread customer base. Management evaluated credit risk relating to customers on an ongoing basis..		
Market risk		
Interest rate risk		
As the municipality has no significant interest-bearing assets, the municipality's income and operating cash flows are substantially independent of changes in market interest rates.		
45. Going concern		
We draw attention to the fact that at 30 June 2015, the municipality had a net current liability position of R 181 848 382(2014: R115 907 368). The position is attributed to challenges in collecting amounts due from the municipality's consumer receivables which resulted in huge impairment for the receivables. This situation poses operating difficulties to the municipality.		
The annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.		
46. Unauthorised expenditure		
Opening balance	2 076 058	4 087 614
Expenditure incurred during the year	44 439 080	2 076 058
Less condoned by council	-	(4 087 614)
	46 515 138	2 076 058

Ba-Phalaborwa Local Municipality

Annual Financial Statements for the year ended 30 June 2015

Notes to the Annual Financial Statements

Figures in Rand	2015	2014
46. Unauthorised expenditure (continued)		
The Unauthorised expenditure for the year was due to overspending of the municipal budget. The overspending was experienced in Budget and Treasury, Corporate Services and Executive Council departments.		
47. Fruitless and wasteful expenditure		
Opening balance	5 665 041	4 130 520
Expenditure for the year	6 105 742	1 534 521
	11 770 783	5 665 041
Current year fruitless and wasteful expenditure consists of:		
i- Interest payments to: Eskom	R1 498 396	
SARS- Interest on VAT, PAYE and SDL	R1 342 383	
Other	R14 963	
ii - Out of court Settlement: Kolden Arrows	R3 250 000	
48. Irregular expenditure		
Opening balance	126 318 733	90 938 146
Add: Irregular Expenditure - current year	10 024 147	4 911 879
Less: Amounts condoned	-	(28 567 737)
Additional irregular identified for prior year	-	59 036 445
	136 342 880	126 318 733
Analysis of expenditure awaiting condonation per age classification		
Current year	10 024 147	51 879 766
Prior years	126 318 733	62 370 409
	136 342 880	114 250 175
Details of irregular expenditure – current year		
	Steps taken	
Deviation from three quotations	None: Deviation was approved by Accounting Officer	2 956 771
Award of contract based on incorrect evaluation criteria	None	4 890 000
Splitting of potential Tender project into a number of quotations	None	2 177 375
		10 024 146
49. Additional disclosure in terms of Municipal Finance Management Act		
Contributions to organised local government		
Audit fees		
Current year fees	2 974 314	3 319 557
Amount paid - current year	(2 974 314)	(3 319 557)
	-	-

Ba-Phalaborwa Local Municipality

Annual Financial Statements for the year ended 30 June 2015

Notes to the Annual Financial Statements

Figures in Rand	2015	2014
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49. Additional disclosure in terms of Municipal Finance Management Act (continued)

PAYE and UIF

Opening balance	1 522 744	-
Current year subscription / fee	16 915 219	14 275 642
Amount paid - current year	(15 673 138)	(12 752 898)
	<u>2 764 825</u>	<u>1 522 744</u>

Pension and Medical Aid Deductions

Opening balance	578 253	-
Current year subscription / fee	25 559 348	32 523 383
Amount paid - current year	(23 405 983)	(31 945 130)
	<u>2 731 618</u>	<u>578 253</u>

VAT

VAT payable	<u>10 722 895</u>	<u>2 444 704</u>
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VAT output payables and VAT input receivables are shown in note .

All VAT returns have been submitted by the due date throughout the year.

Ba-Phalaborwa Local Municipality

Annual Financial Statements for the year ended 30 June 2015

Notes to the Annual Financial Statements

Figures in Rand	2015	2014
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49. Additional disclosure in terms of Municipal Finance Management Act (continued)

Councillors' arrear consumer accounts

The following Councillors had arrear accounts outstanding for more than 90 days at 30 June 2015:

30 June 2015	Outstanding less than 90 days R	Outstanding more than 90 days R	Total R
Cllr.Kgoete LE	590	-	590
Cllr. Peta MR	749	-	749
Cllr.Nkuna SR	440	-	440
Cllr.Mohlala SL	634	-	634
Cllr.Mkanzi ST	784	-	784
Cllr.Mthombeni ET	92	-	92
Cllr.Mashele G	704	-	704
Cllr.Flemming GJ	501	-	501
Cllr. Maake MD	220	-	220
Cllr.Sono NA	508	-	508
Cllr.DE Beer SR	284	-	284
Cllr.Magomane MS	241	-	241
Cllr.Otto TA	983	-	983
	6 730	-	6 730
30 June 2014	Outstanding less than 90 days R	Outstanding more than 90 days R	Total R
Cllr.Kgoete LE	516	-	516
Cllr.Peta MR	679	-	679
Cllr.Nkuna SR	331	-	331
Cllr.Mohlala NC	468	-	468
Cllr.Mkanzi ST	400	-	400
Cllr.Mthombeni ET	87	-	87
Cllr.Mathebula HA	291	-	291
Cllr.Mashele	491	-	491
Cllr.Fleming GJ	683	-	683
Cllr.Maake MD	206	-	206
Cllr.Sono A	304	-	304
Cllr.De Beer SR	341	-	341
Cllr.Otto	901	-	901
Cllr.Magomane MS	257	-	257
	5 955	-	5 955

50. Deviation from supply chain management regulations

Paragraph 12(1)(d)(i) of Government gazette No. 27636 issued on 30 May 2005 states that a supply chain management policy must provide for the procurement of goods and services by way of a competitive bidding process.

Stripping and coding services in the Department of Technical Services were procured during the financial year under review and the process followed in procuring those goods deviated from the provisions of paragraph 12(1)(d)(i) as stated above. The reasons for these deviations were that there is only one sole provider approved to provide the services around the province, these reasons were documented and reported to the accounting officer who considered them and subsequently approved the deviation from the normal supply chain management regulations.

Ba-Phalaborwa Local Municipality

Annual Financial Statements for the year ended 30 June 2015

Notes to the Annual Financial Statements

Figures in Rand	2015	2014
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51. Budget differences

Material differences between budget and actual amounts

The Municipality's policy is to explain all excess of actual expenditure over the final budget of 10% and above.

The excess of actual impairment loss for the year against the budgeted expenditure is attributed to the low recoverability of amounts due from debtors. This has resulted in high impairment loss.

Changes from the approved budget to the final budget

The changes between the approved and final budget are a consequence of changes in the overall budget parameters. Examples of the factors include the following:

i - The adjustment to budgeted finance costs was a result of the expected increase in the costs due to use of overdraft facilities during the year.

52. Comparison of Actual and Budget Expenditure by Department (Vote Number)

	Actual Expenditure	Budget	Over / (Unspending)
Budget and Treasury	103 254 449	(89 488 000)	13 766 449
Community Services	47 011 787	(65 648 000)	(18 636 213)
Corporate Services	57 213 907	(44 257 000)	12 956 907
Executive and Council	53 440 725	(35 725 000)	17 715 725
Planning and Development	11 065 736	(16 934 000)	(5 868 264)
Technical Department	178 171 998	(195 125 000)	(16 953 002)
	450 158 602	(447 177 000)	2 981 602

53. Changes in accounting policy

Property, plant and equipment - Land

During the year, the municipality changed its accounting policy with respect to the treatment of property plant and equipment, land. The municipality now accounts for land using the revaluation model in line with paragraph 34 of GRAP17. The revaluation model provides reliable and more relevant information with respect to accounting for land as the majority of the land owned by the municipality was acquired through non-exchange transactions.

The change in accounting policy has been accounted for prospectively in line with the provisions of GRAP 3 and GRAP 17. Revaluation of land was not performed in prior periods and it is therefore impractical to retrospectively restate the prior year figures.

The aggregate effect of the changes in accounting policy on the annual financial statements for the year ended 30 June 2015 is as follows:

Statement of financial position

Property, plant and equipment

Land at cost	58 159 754	-
Revaluation adjustment	54 463 703	-
	112 623 457	-
Revaluation reserve		
Revaluation Adjustment	54 463 703	-

Ba-Phalaborwa Local Municipality
Ba-Phalaborwa Local Municipality
Appendix B

June 2015

Analysis of property, plant and equipment as at 30 June 2015
Cost/Revaluation **Accumulated depreciation**

	Opening Balance Rand	Additions Rand	Disposals Rand	Transfers Rand	Revaluations / Fair Valuations Rand	Other changes, movements Rand	Closing Balance Rand	Opening Balance Rand	Disposals Rand	Transfers Rand	Depreciation Rand	Impairment loss Rand	Closing Balance Rand	Carrying value Rand
Land and buildings														
Land	58 159 754	-	-	-	54 463 703	-	112 623 457	-	-	-	-	-	-	112 623 457
Buildings	326 234 043	-	-	-	-	-	326 234 043	(167 456 626)	-	-	(11 972 098)	-	(179 428 724)	146 805 319
	384 393 797	-	-	-	54 463 703	-	438 857 500	(167 456 626)	-	-	(11 972 098)	-	(179 428 724)	259 428 776
Infrastructure														
HV Network (>33kv)	13 314 797	-	-	-	-	-	13 314 797	(5 439 989)	-	-	(273 295)	-	(5 713 284)	7 601 513
Storm water	17 827 158	7 505 234	-	-	-	-	25 332 392	(6 345 061)	-	-	(470 907)	-	(6 815 968)	18 516 424
Kerb	72 817	-	-	-	-	-	72 817	(1 333)	-	-	(1 456)	-	(2 789)	70 028
LV Network	17 530 861	7 246 250	-	-	-	-	24 777 111	(6 655 939)	-	-	(624 281)	-	(7 280 220)	17 496 891
Mv cu and AL cable	38 873 449	-	-	-	-	-	38 873 449	(20 516 542)	-	-	(863 854)	-	(21 380 396)	17 493 053
MV Network	101 299 052	-	-	-	-	-	101 299 052	(40 222 486)	-	-	(4 275 588)	-	(44 498 074)	56 800 978
Railsides assets	97 982	-	-	-	-	-	97 982	(47 358)	-	-	(6 532)	-	(53 890)	44 092
Reticulation	674	-	-	-	-	-	674	(492)	-	-	(13)	-	(505)	169
Roadbridges	12 936 994	2 030 772	-	-	-	-	14 967 766	(2 794 753)	-	-	(175 655)	-	(2 970 408)	11 997 358
Roadside assets	144 855 967	3 383 978	-	-	-	-	148 239 945	(64 689 529)	-	-	(4 442 213)	-	(69 131 742)	79 108 203
Roads	386 106 158	9 717 154	-	-	-	-	395 823 312	(186 805 774)	-	-	(19 738 615)	-	(206 544 389)	189 278 923
Roadsurface	-	223 761	-	-	-	-	223 761	-	-	-	(9 931)	-	(9 931)	213 830
Road furniture	2 774	-	-	-	-	-	2 774	(169)	-	-	(185)	-	(354)	2 420
	732 918 683	30 107 149	-	-	-	-	763 025 832	(333 519 425)	-	-	(30 882 525)	-	(364 401 950)	398 623 882
Community Assets														
Buildings	201 811 227	183 584	-	-	-	-	201 994 811	(95 823 830)	-	-	(6 729 522)	-	(102 553 352)	99 441 459
Carports	3 922 112	-	-	-	-	-	3 922 112	(346 135)	-	-	(130 737)	-	(476 872)	3 445 240
Other facilities	2 652 199	-	-	-	-	-	2 652 199	(1 090 236)	-	-	(123 102)	-	(1 213 338)	1 438 861
Paving	7 845 651	1 117 085	-	-	-	-	8 962 736	(1 368 337)	-	-	(425 030)	-	(1 793 367)	7 169 369
Perimetre Fencing	5 619 361	-	-	-	-	-	5 619 361	(1 284 050)	-	-	(224 774)	-	(1 508 824)	4 110 537
Signs	34 830	-	-	-	-	-	34 830	(15 217)	-	-	(2 322)	-	(17 539)	17 291
Stadium with seperated buildings	87 114 921	198 022	-	-	-	-	87 312 943	(44 303 997)	-	-	(2 907 604)	-	(47 211 601)	40 101 342
Street Lights	792 576	-	-	-	-	-	792 576	(372 260)	-	-	(19 814)	-	(392 074)	400 502
Landfill sites	16 671 000	-	-	-	-	(248 732)	16 422 268	-	-	-	(4 098 000)	-	(4 098 000)	12 324 268
	326 463 877	1 498 691	-	-	-	(248 732)	327 713 836	(144 604 062)	-	-	(14 660 905)	-	(159 264 967)	168 448 869

Ba-Phalaborwa Local Municipality
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Appendix B

Analysis of property, plant and equipment as at 30 June 2014
Cost/Revaluation **Accumulated depreciation**

	Opening Balance Rand	Additions Rand	Disposals Rand	Transfers Rand	Revaluations / Fair Valuations Rand	Other changes, movements Rand	Closing Balance Rand	Opening Balance Rand	Disposals Rand	Transfers Rand	Depreciation Rand	Impairment loss Rand	Closing Balance Rand	Carrying value Rand
Land and buildings														
Land	58 159 754	-	-	-	-	-	58 159 754	-	-	-	-	-	-	58 159 754
Buildings	326 234 043	-	-	-	-	-	326 234 043	(155 484 528)	-	-	(11 972 098)	-	(167 456 626)	158 777 417
	384 393 797	-	-	-	-	-	384 393 797	(155 484 528)	-	-	(11 972 098)	-	(167 456 626)	216 937 171
Infrastructure														
Roads Bridges	12 638 249	298 744	-	-	-	-	12 936 993	(2 633 523)	-	-	(161 231)	-	(2 794 754)	10 142 239
Storm water	17 439 405	387 754	-	-	-	-	17 827 159	(5 958 211)	-	-	(386 851)	-	(6 345 062)	11 482 097
Roads	381 277 736	4 828 422	-	-	-	-	386 106 158	(167 520 970)	-	-	(19 284 804)	-	(186 805 774)	199 300 384
MV Network	97 046 039	4 253 013	-	-	-	-	101 299 052	(36 052 932)	-	-	(4 169 554)	-	(40 222 486)	61 076 566
MV Cu & Al cable	38 873 449	-	-	-	-	-	38 873 449	(19 652 688)	-	-	(863 854)	-	(20 516 542)	18 356 907
LV Network (1000v)	17 530 861	-	-	-	-	-	17 530 861	(6 198 421)	-	-	(457 518)	-	(6 655 939)	10 874 922
Roadside assets	141 871 071	2 984 895	-	-	-	-	144 855 966	(60 341 103)	-	-	(4 348 426)	-	(64 689 529)	80 166 437
HV Network	13 314 797	-	-	-	-	-	13 314 797	(5 166 694)	-	-	(273 295)	-	(5 439 989)	7 874 808
Reticulation	674	-	-	-	-	-	674	(479)	-	-	(13)	-	(492)	182
Kerb	-	72 817	-	-	-	-	72 817	-	-	-	(1 333)	-	(1 333)	71 484
Railside assets	97 982	-	-	-	-	-	97 982	(40 826)	-	-	(6 532)	-	(47 358)	50 624
Road furniture	-	2 774	-	-	-	-	2 774	-	-	-	(169)	-	(169)	2 605
	720 090 263	12 828 419	-	-	-	-	732 918 682	(303 565 847)	-	-	(29 953 580)	-	(333 519 427)	399 399 255
Community Assets														
Buildings	199 174 173	2 637 055	-	-	-	-	201 811 228	(89 099 920)	-	-	(6 723 910)	-	(95 823 830)	105 987 398
Carports	3 703 327	218 785	-	-	-	-	3 922 112	(215 658)	-	-	(130 477)	-	(346 135)	3 575 977
Other facilities	2 603 643	48 556	-	-	-	-	2 652 199	(967 192)	-	-	(123 044)	-	(1 090 236)	1 561 963
Paving	7 705 972	139 678	-	-	-	-	7 845 650	(976 303)	-	-	(392 034)	-	(1 368 337)	6 477 313
Perimetree fencing	5 619 361	-	-	-	-	-	5 619 361	(1 059 276)	-	-	(224 774)	-	(1 284 050)	4 335 311
Signs	34 830	-	-	-	-	-	34 830	(12 895)	-	-	(2 322)	-	(15 217)	19 613
Stadium with seperated Buildings	87 114 921	-	-	-	-	-	87 114 921	(41 400 166)	-	-	(2 903 831)	-	(44 303 997)	42 810 924
Street Lights	771 692	20 884	-	-	-	-	792 576	(352 464)	-	-	(19 796)	-	(372 260)	420 316
Landfill sites	9 177 856	-	-	-	-	7 493 144	16 671 000	-	-	-	-	-	-	16 671 000
	315 905 775	3 064 958	-	-	-	7 493 144	326 463 877	(134 083 874)	-	-	(10 520 188)	-	(144 604 062)	181 859 815

June 2015

June 2015

Ba-Phalaborwa Local Municipality

Appendix E(1)

June 2015

Actual versus Budget(Revenue and Expenditure) for the year ended 30 June 2015

	Act. Bal.	Adjusted budget	Variance		Explanation of Significant Variances greater than 10% versus Budget
	Rand	Rand	Rand	Var	
Revenue					
Service charges	99 013 201	106 663 766	(7 650 565)	(7.2)	
Rental of facilities and equipment	265 470	330 250	(64 780)	(19.6)	Not achieved as expected due to less function or events that occurred during the year
Dividends received	-	2 500	(2 500)	(100.0)	
Income from agency services	5 324 933	2 255 186	3 069 747	136.1	Underbudgeted
Licences and permits	2 257 105	9 020 744	(6 763 639)	(75.0)	Overbudgeted and less turn around of registration and licensing of vehicles.
Other income - (rollup)	2 561 907	1 351 509	1 210 398	89.6	Underbudgeted for due to difficulties in estimating other income.
Fines	8 822 814	2 600 000	6 222 814	239.3	This was under budgeted as the volume of traffic fines is difficult to predict.
Property rates	65 593 648	70 633 500	(5 039 852)	(7.1)	
Donation	88 715	-	88 715	-	The donation of library books in the current year was not anticipated.
Indegent support FBS	178 081	-	178 081	-	
Government grants	126 400 672	125 769 000	631 672	0.5	
Interest revenue	30 175 946	74 903 508	(44 727 562)	(59.7)	Low collection on outstanding debtors (Culture of Non-payment of services).
Other transfer revenue	4 499 921	-	4 499 921	-	
	345 182 413	393 529 963	(48 347 550)	(12.3)	
Expenses					
Personnel	(123 097 499)	(117 515 635)	(5 581 864)	4.7	
Remuneration of councillors	(11 789 625)	(12 085 439)	295 814	(2.4)	
Audit committee fees	(224 402)	-	(224 402)	-	This was budgeted for as part of councilors' remuneration hence there is no budget overspending.
Depreciation	(59 697 539)	(74 909 000)	15 211 461	(20.3)	The detailed unbundling of assets which were previously not unbundled as well as revision of useful lives and residual values resulted in lower depreciation than budget.
Amortisation	(429 624)	-	(429 624)	-	This was budgeted for along with depreciation hence there is no overspending.
Impairments	(73 146 288)	(31 558 321)	(41 587 967)	131.8	The excess of actual impairment loss for the year against the budgeted expenditure is attributed to the low recoverability of amounts due from debtors. This has resulted in high impairment loss
Finance costs	(231 337)	(2 047 503)	1 816 166	(88.7)	Finance costs were overestimated
Repairs and maintenance - General	(13 380 536)	(20 201 850)	6 821 314	(33.8)	There was an over estimate of the level of repairs and maintenance to be made.
Bulk purchases	(65 625 967)	(82 573 300)	16 947 333	(20.5)	Bulk purchases were over projected.
Contracted Services	(44 544 645)	(49 485 274)	4 940 629	(10.0)	Contracted services were over projected.
General Expenses	(57 991 139)	(56 801 206)	(1 189 933)	2.1	
	(450 158 601)	(447 177 528)	(2 981 073)	0.7	
Other revenue and costs					
Fair value adjustments	44 229	-	44 229	-	
	44 229	-	44 229	-	
Net surplus/ (deficit) for the year	(104 931 959)	(53 647 565)	(51 284 394)	95.6	